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USE OF CREDIT CARDS IN MILITARY EXCHANGES

HEARING

BEFORE THE

MORALE, WELFARE AND RECREATION (MWR) PANEL OF THE READINESS SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

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H201-6

USE OF CREDIT CARDS IN MILITARY EXCHANGES

HOUSE OF REPRESENTATIVES, COMMITTEE ON ARMED SERVICES, MORALE, WELFARE AND RECREATION PANEL OF THE READINESS SUBCOMMITTEE,

Washington, DC, Wednesday, September 18, 1985.

The panel met, pursuant to notice, at 2:01 p.m., in room 2212, Rayburn House Office Building, Hon. Dan Daniel presiding.

OPENING STATEMENT OF HON. DAN DANIEL, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, READINESS SUBCOMMITTEE AND MORALE, WELFARE AND RECREATION [MWR] PANEL

Mr. DANIEL. The panel will be in order.

This afternoon the panel will consider a request by the Department of Defense to authorize the use of nationally known credit cards in military exchanges.

In February 1984, the Department of Defense requested the Armed Services Committee to permit the Navy Exchange to conduct a 1-year test of credit cards in the United States. Subsequently, the Army and Air Force Exchange Service and the Marine Corps Exchange Service made the same request, stating that the use of credit cards would best serve the interests of their personnel.

In October 1984, the panel discussed this proposal with the commanders of the three exchange services. The panel did not take action at that time because the exchanges had not developed a coordinated plan of action, and a number of issues were unresolved.

The fiscal year 1986 budget requests for the military services that were submitted to the Armed Services Committee earlier this year supported the exchange initiatives to obtain congressional approval for use of credit. In addition, Dr. Larry Korb, a former Assistant Secretary of Defense for Manpower, Installations and Logistics, along with the four service Chiefs of Staff, personally endorsed the use of credit in exchanges.

In view of this support the panel believed it necessary to reconsider the credit issue and provide both proponents and opponents the opportunity to express their views. I want to mention that the panel invited a number of retail establishments that are opposed to this proposal to appear before the panel to express their views. However, all have declined to appear but have indicated they may submit information for the record.

The Chair may state at this moment that the record will be left open for 5 legislative days right after the close of the hearing in order that anyone who wishes to do so may present such information.

Worldwide military exchange sales were almost $7 billion in 1984, making them the sixth largest retailer in the country. For all practical purposes exchanges in the United States operate on a cash basis although a layaway program is available and heavily used by patrons,

Overseas exchanges were authorized a deferred or inhouse credit plan in 1979. Exchanges in the United States are authorized to extend credit for gasoline sales and certain concessionaire operations such as florists, shoe, and appliance repair. These activities are operated by local concessionaires.

A number of factors must be considered before a decision is reached concerning the use of credit cards at exchanges. Although credit cards are widely used in the private sector and many military personnel already have them, there is little doubt credit has certain benefits and disadvantages.

On the positive side the use of credit in exchanges would increase sales and profits, resulting in increased contributions to morale, welfare, and recreation, thereby raising the quality of life of our military personnel at no cost to the taxpayers.

Areas of concern, if credit cards are authorized for use, are the extent commercial retail stores may be impacted and the potential for increased personal debt by military personnel.

It is my hope that these factors and others will be considered by the panel before it reaches a decision on this issue.

Mr. Whitehurst is the ranking minority member of this panel. He has worked long and diligently for us on behalf of the service personnel and I hope, Mr. Whitehurst, you might have something to say at this time.

STATEMENT OF HON. G. WILLIAM WHITEHURST, A REPRESENTATIVE FROM VIRGINIA, RANKING MINORITY MEMBER, MORALE, WELFARE AND RECREATION PANEL

Mr. WHITEHURST. Thank you, Mr. Chairman, I just have a few comments.

The use of credit cards in military exchanges is not a new issue. It has been considered by this panel and the Department of Defense on a number of occasions.

The proposal before us today is somewhat different since only nationally known credit cards would be accepted. It is my understanding that under this proposal exchanges would not issue cards or extend credit. That would be the responsibility of the banks and credit card companies.

I recognize that if this proposal is accepted, exchange profits and their contributions to morale, welfare, and recreation should increase. As important as these aspects of this proposal are, however, the major beneficiaries in my view would be to our military personnel and their dependents.

Very few people today pay for a sizable purchase with a check or cash. Credit cards are widely used and accepted and are a part of the American lifestyle. With a credit card you can rent a car, borrow money, and in some jurisdictions pay local taxes. Exchange patrons, however, are denied this convenience.

The principal concern of many people regarding this proposal is the impact it would have on commercial retail establishments. This argument has merit and it will be difficult to overcome.

I am hopeful, Mr. Chairman, that we can clarify these issues and other remaining concerns during the hearing today. Thank you very much.

Mr. DANIEL. Do any other members have anything to say before we commence with the witness?

Will Admiral Wilson, General Long, and Colonel Irwin please come up to the table because the members may have questions to ask you along with the other gentlemen who are appearing.

Our principal witness this afternoon is Jerry L. Calhoun, Acting Assistant Secretary of Defense for Force Management and Personnel.

He is accompanied by Lt. Gen. Edgar A. Chavarrie, Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy; Rear Adm. Donald E. Wilson, commander, Navy Resale and Services Support Office; Maj. Gen. John E. Long, commander, Army and Air Force Exchange Service; and Col. W.R. Irwin, commander of the Marine Corps Exchange.

General Long, I believe this is your first appearance before our panel. We are pleased to have you with us along with the other gentlemen, who have been here before. Mr. Calhoun, you may proceed as you desire.

Mr. CALHOUN. Thank you very much, Mr. Chairman. I do have a brief statement to read into the record, if I may.

STATEMENT OF JERRY L. CALHOUN, ACTING ASSISTANT SECRETARY OF DEFENSE FOR FORCE MANAGEMENT AND PERSONNEL, DEPARTMENT OF DEFENSE

Mr. CALHOUN. For several years the acceptance of credit cards and credit has been rather evolving in its nature within the Department. Open messes traditionally billed their members monthly, and now most have done away with the inhouse billing and accept national credit cards. Similarly, these cards can be used to pay for fees and services on many military installations—for example, golf and swimming memberships, and child care, and temporary lodging fees.

The use of credit for exchange purposes has also been expanded over the years but is still limited to some gasoline and service station purchases, as well as purchases of military uniforms and accessories, the overseas deferred payment plan, and concession sales. There is no authorization or provision for credit to be used for purchases of general exchange merchandise in the United States. This, of course, is in direct contrast to current practice in the private sector where we have witnessed dramatic changes over the past three decades.

In the 1950's the use of credit was generally limited to stores which extended monthly terms. Many smaller stores and at least one major chain retailer, J.C. Penney, were cash and carry. This situation has changed over the years until now most retail stores accept national credit cards and most Americans, including most of our Armed Forces personnel, possess and use these credit cards.

Ironically, military families and their service members can use them almost everywhere except in their own exchanges. And that is why we are here today, to seek the approval of this committee for our proposal to accept nationally recognized credit cards at military exchanges.

Mr. Chairman, I would like to thank you for calling this hearing, and for indulging us over the last 2 years while we worked together within the Department to come to the position we have today.

Initially we requested that the committee approve a test of credit card use within the Navy exchanges, as you have already mentioned. And, at the same time, some consideration was being given in other quarters to inhouse administered plans within the United States similar to the deferred payment plan overseas.

Today we have a single request, to permit acceptance of nationally recognized credit cards on military exchanges worldwide.

Earlier this year, as you stated earlier, Mr. Chairman, the Chiefs of Staff of the Army and the Air Force, and the Chief of Naval Operations, and the Commandant of the Marine Corps, wrote to the committee in support of this proposal. The senior enlisted advisers of all four services testified in support of credit at the quality of life hearings on February 21 this year. The former Assistant Secretary of Defense, Dr. Korb, also wrote a letter in support to the committee. We all believe that our patrons should have the opportunity to shop in the exchanges with the same convenience that they have elsewhere.

Ongoing changes in technology are revolutionizing the retail industry, and we expect that in a few years point-of-sale equipment will permit electronic fund transfers which could largely replace the use of cash.

The military exchanges need to be able to accept nationally recognized credit cards to keep abreast of these changes. Acceptance of credit cards will reduce the need for our patrons to carry or keep large amounts of cash on their persons or in their quarters. It will permit immediate possession and use of some items currently placed in layaway, and it will incrementally increase both exchange sales and earnings used to support morale, welfare, and recreation activities, as you earlier stated.

Important, too, is what acceptance of national credit cards will not do. It will not raise exchange prices. It will not replace or eliminate the layaway program or the overseas deferred payment program that will still be helpful to our patrons. And it will not involve the exchanges in determining the creditworthiness of their patrons.

If approved by this committee, we will insure that the military exchange services solicit qualified potential contractors who desire to offer credit cards and their related services. We are confident that they will be able to secure competitive and comparable rates for those cards currently available and obtainable by the majority of our military personnel and their families.

That concludes my formal statement. If there are any questions, we would be happy to try and answer them.

PREPARED STATEMENT OF JERRY L. CALHOUN

Mr. Chairman, I am Jerry Calhoun, the Acting Assistant Secretary of Defense for Force Management and Personnel. I am accompanied this afternoon by Lieutenant General Edgar A. Chavarrie, Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy and by our three military exchange commanders: Major General John E. Long, Army and Air Force Exchange Service; Rear Admiral Donald E. Wilson, Navy Resale and Services Support Office; and Colonel William R. Irwin, Marine Corps Exchange Service.

For several years, the acceptance of credit has been evolving within the Department. Open messes traditionally billed their members monthly. Now, most have done away with in-house billing and accept national credit cards. Similarly, these cards can be used to pay for fees and services on many military installations—for example, golf and swimming memberships and child care and temporary lodging fees.

The use of credit for exchange purchases has also been expanded over the years but is still limited to some gasoline and service stations, purchases of military uniforms and accessories, the overseas deferred payment plan, and concessionaire sales. There is no authorization or provision for credit to be used for purchases of general exchange merchandise in the United States.

This, of course, is in direct contrast to current practice in the private sector, where we have witnessed dramatic changes over the past three decades. In the 1950's the use of credit was generally limited to stores which extended monthly terms. Many smaller stores and at least one major chain retailer—J. C. Penney—were cash and carry. This situation has changed over the years until now most retail stores accept national credit cards and most Americans, including the majority of our armed services personnel, possess and use these cards. Ironically, military family members can use them almost everywhere except in their own exchanges. And that is why we are here today—to seek the approval of this Committee for our proposal to accept nationally recognized credit cards in military exchanges.

Mr. Chairman, I want to thank you for calling this hearing and for indulging us over the last two years while we worked together within the Department to come to the position we have today. You will recall that initially we requested the Committee to approve a test of credit card usage in Navy Exchanges. At the same time, some consideration was being given in other quarters to an in-house administered credit plan in the United States, similar to the Deferred Payment Plan overseas. Today, we have a single request—to permit acceptance of nationally recognized credit cards in military exchanges world-wide.

Earlier this year, the Chiefs of Staff of the Army and Air Force, the Chief of Naval Operations, and the Commandant of the Marine Corps wrote to the Committee in support of this proposal. The senior enlisted advisors of all four Services testified in support of credit at the Quality of Life hearing on February 21, 1985. The former Assistant Secretary of Defense, Dr. Korb, also wrote a letter of support to the Committee. We all believe that our patrons should have the opportunity to shop in the exchanges with the same convenience that they have elsewhere.

On-going changes in technology are revolutionizing the retail industry. We expect, that in a few years, point of sale equipment will permit electronic fund transfers, which could largely replace the use of cash. The military exchanges need to be able to accept nationally recognized credit cards to keep abreast of these changes. Acceptance of credit cards will reduce the need of our patrons to carry or keep large amounts of cash on their person or in quarters. It will permit immediate possession and use of some items currently placed in layaway. And it will incrementally increase both exchange sales and earnings used to support morale, welfare and recreation (MWR) activities.

Important, too, is what acceptance of national credit cards won't do. It won't raise exchange prices. It won't replace or eliminate the layaway program or the overseas deferred payment program that are still helpful to our patrons. And it won't involve the exchanges in determining the credit worthiness of their patrons.

If approved by this Committee, we will insure that the military exchange services solicit qualified potential contractors who desire to offer credit card services. We are confident that they will be able to secure competitive and comparable rates for those cards currently available and obtainable by the majority of our military personnel and their families.

Mr. Chairman, that concludes my prepared statement. I will be pleased to answer any questions you may have.

Mr. DANIEL. Do any other of you gentlemen have any statement that you would like to make?

The Chair holds in his hand some documents, including letters from Dr. Korb and the military chiefs' justifications, from exchange commanders.

I ask unanimous consent to have all of these inserted in the record.

[The following information was received for the record:]

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301-4000

MANPOWER,
INSTALLATIONS
AND LOGISTICS

7 MAR 1985

Honorable Dan Daniel
Chairman, Readiness Subcommittee
Committee on Armed Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Recently, you have received correspondence from the four Service chiefs seeking your support for the proposal to authorize the use of nationally recognized credit cards in military exchanges. Also we have just concluded the Quality of Life In The Military Hearing, before the Subcommittee on Military Construction, House Appropriations Committee. At this hearing, the Senior Noncommissioned Officers of each Service testified to the importance of commercial credit cards in the exchanges. The central theme that emerged was the comparability of the Service members with their civilian counterparts. Furthermore, the inability of Service members to use credit cards restricts their ability to take full economic advantage of the exchanges.

With these considerations in mind, I would like to add my very strong personal support to the credit proposal. We in DoD are unified in the proposition that the ability of Service members to use commercial credit cards in the military exchanges will enhance the member's Quality of Life through the creation of this nonpay compensation. Your support in this matter would be most appreciated. I stand ready to provide any supporting data you may need as you deliberate this critical subject.

Sincerely,

Lawrence J. Korb
Assistant Secretary of Defense
(Manpower, Installations & Logistics)

cc: Honorable William Nichols
Honorable G. William Whitehurst

UNITED STATES ARMY
THE CHIEF OF STAFF

1/21

Honorable Dan Daniel
Chairman, Subcommittee on Readiness
House of Representatives
Washington, DC 20515

Dear Mr. Daniel:

Nationally recognized credit cards have become the accepted and predominant method of payment in most American commercial enterprises today. Our soldiers and their families are accustomed to using credit cards when shopping in civilian communities and receiving the benefits which accrue by such use. The inability to provide the same service in military exchanges denies the service member the economic benefits available and impacts on exchange earnings in support of morale, welfare and recreation programs.

Quality of life issues such as this affect readiness and the commitment of soldiers to a military career and their willingness to serve despite hazards, hardships, uncertainties and frequent moves. Congressional support of this much-needed and long-sought-after benefit will be viewed by our soldiers as a reaffirmation of the nation's commitment to them.

To the Army's support for the use of nationally known credit cards in military exchanges I add my personal support. We stand ready to provide any needed information.

With warm personal regards

Most sincerely,

JOHN A. WICKHAM, JR.
General, United States Army
Chief of Staff

DEPARTMENT OF THE AIR FORCE
OFFICE OF THE CHIEF OF STAFF
UNITED STATES AIR FORCE
WASHINGTON, D.C. 20330

30 JAN 1985

Dear Mr. Chairman

I solicit your support for the proposal to authorize military exchanges to accept nationally known credit cards. Simply stated, I believe military families have every right to expect treatment in their exchanges comparable to what they receive in commercial stores. National bank cards are a well-established medium of exchange. Questions of the financial integrity of the cardholder are resolved in accordance with accepted commercial procedures before issuance, and credit limits are adjusted as the holder demonstrates growing financial responsibility. Our failure to accept credit cards in exchanges, in effect, denies the full advantages of exchange shopping to the many responsibile service members who prefer to use credit cards as do so many of their civilian peers.

Your constant support has allowed us to make the improvements in the quality of life necessary to offset partially the hazards, uncertainties and sacrifices we ask our people to endure. This proposal would help give our people the economic dignity to which they are entitled -- and it costs the taxpayer nothing. I need your help on this important issue.

Sincerely

Charles A. Gabriel

CHARLES A. GABRIEL, General, USAF
Chief of Staff

Honorable Dan Daniel
Chairman, Subcommittee on Readiness
House Armed Services Committee
Washington, D.C. 20515

CHIEF OF NAVAL OPERATIONS

21 February 1985

Dear Mr. Chairman,

I am writing concerning the request for the use of nationally known credit cards in military exchanges and want to reiterate the Navy's position on this quality of life issue.

The Navy has been the lead agent in the request for credit card use in exchanges, and this initiative has the unqualified support of the entire Navy community. The impetus came from a grass roots movement of our service men and women who do not understand why they cannot use credit cards in their Navy exchanges. For this reason, Mr. Nichols and yourself were initially approached on this issue by Rear Admiral David Harlow, Deputy Chief of Naval Personnel, and Master Chief Petty Officer of the Navy, Billy Sanders.

I want to add my personal support for credit card use in exchanges and wish to emphasize that this initiative should be viewed, not as a business issue, but as a quality of life enhancement for our service men and women, who have strongly voiced their desire for credit card acceptance in exchanges for some time. I feel that the time is overdue and that our Navy families deserve to realize the full benefit of their exchange entitlement.

My staff stands ready to provide any additional information you may require.

Sincerely,

James D. Watkins

JAMES D. WATKINS
Admiral, U.S. Navy

The Honorable Dan Daniel
Chairman, Subcommittee on Readiness
House of Representatives
Washington, D.C. 20515

DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
WASHINGTON, D.C. 20380

IN REPLY REFER TO:
4066
LFE
26 FEB 1985

The Honorable Dan Daniel
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives
Washington, DC 20510

Dear Mr. Chairman:

I would like to reaffirm the position of the Marine Corps on permitting the use of nationally recognized credit cards in military exchanges. It is my belief this initiative should be viewed not from a business standpoint, but rather as a quality of life and retention issue.

All too often, military families perceive themselves to be second-class citizens. The fact that they are not permitted to use credit cards in their own exchange, but they can use them in commercial stores where prices are usually higher, only adds substance to this feeling. The use of credit cards in military exchanges would permit the military family to benefit from the savings available through the exchange during periods when expenses are greater than income, such as Christmas, back to school time and during permanent changes of station.

The Marine Corps has always attempted to retain high-quality, technically-trained Marines and the exchange privilege is perceived as an important inducement for re-enlistment. Certainly permitting the use of credit cards would enhance the importance of the exchange as a retention factor.

I would like to add my personal endorsement for the use of credit cards in exchanges. I feel this improvement to the exchange benefit, which costs the taxpayer nothing, is a long overdue initiative and will enhance the quality of life for our Marine families.

Please don't hesitate to request any additional information and assistance I can provide.

Respectfully,

P. X. KELLEY
General, U.S. Marine Corps
Commandant of the Marine Corps

DEPARTMENT OF DEFENSE
Navy Resale and Services Support Office, Ft. Wadsworth, S.I., N.Y. 10305
Army and Air Force Exchange Service, Dallas, TX 75266-0202
Marine Corps Exchange Service Branch, Quantico, VA 22134

Honorable Dan Daniel
Chairman
Morale, Welfare and Recreation Panel
Committee on Armed Services
House of Representatives
Rayburn Building Room 2120
Washington, D.C. 20515

Dear Mr. Daniel:

During last Fall's MWR Panel information gathering session regarding the proposed use of credit cards in military exchanges, there was some discussion about the potential impact of the proposal on exchange operations and on private sector retailers. Similar discussions have also been held recently with Mr. Cofer of your staff.

As a result of the discussions with Mr. Cofer, we have enclosed position papers from each military exchange service which outline the economics of credit card use in exchanges. The position papers indicate that the use of credit cards will improve the financial performance of the exchange services with minimal impact on commercial retailers.

When considering the credit card proposal, the enhanced financial performance of exchanges is important: however, we feel strongly that the key consideration should remain an improved quality of life for our service members. The utilization of credit cards in exchanges will allow our service men and women to realize the full benefit of their exchange entitlement.

Over the years, your constant support has resulted in an improved military life style and, consequently, a more effective fighting force. We appreciate your help in the past, and sincerely hope that you will give every consideration to the credit card issue.

W. R. Irwin
Colonel, USMC
Head, Marine Corps
Exchange Service Branch
8 APR 1985

Richard D. Murray
Major General, USAF
Commander, AAFES
1 APR 1985

D. E. Wilson
Rear Admiral, SC, USN
Commander, NAVRESSO
1 APR 1985

Enclosures

POSITION PAPER

Navy Resale and Services Support Office

Credit Card Use in Exchanges

Purpose

This position paper examines the expected economic impact of the use of nationally known credit cards in military exchanges. The paper provides information regarding the impact on the Navy Exchange Program, service members and commercial retailers.

Background

A large percentage of exchange customers currently use credit cards. A 1983 survey of almost 60 thousand Navy exchange shoppers revealed the following:

- Over 50% use credit cards
- 32.1% hold MasterCard
- 37.6% hold VISA
- 80% of career Navy personnel (E-5 and above) use credit cards and 57% hold MasterCard and/or VISA
- 67.8% prefer credit card use over layaways

Because VISA and MasterCard are the predominant credit cards held by exchange customers, these cards would be initially accepted in exchanges.

Based on average private sector usage of nationally known credit cards in retail stores, approximately 15% of total Navy exchange retail sales would be credit card purchases. It is estimated that the credit card sales would represent a 6% sales increase, with the balance representing a shift from current cash, check and layaway sales. The impact on Navy exchange retail sales is shown below:

Annual Retail Sales (Thousands)

	Current	With Credit Cards
Cash Sales	$1,000	$ 901
Credit Card Sales	-	$ 159*
Total	$1,000	$1,060

*$60 million incremental credit card sales, and $99 million cash, check and layaway sales converted into credit card purchases.

The cost of credit card use in exchanges, when fully implemented, would be approximately 2.0% of credit card sales. This 2.0% credit card expense includes the merchant discount fee, credit card transaction authorization costs, incremental operating costs and float costs.

The impact of credit card sales on Navy exchange profits is shown below:

Annual Net Profit Impact (Thousands)

	Current	With Credit Cards
Sales	$1,000	$1,060
Net Profit (Before Credit Card Expenses)	$ 48.0	$ 54.7
Less Credit Card Expenses (2.0% of Credit Sales)	0	$ 3.2
Total Net Profit	$ 48.0	$ 51.5
Additional Net Profit	$3.5 Million	

Retail prices would not increase, since the additional net profit from the incremental credit card sales would more than offset credit card related expenses.

Financial Benefits to the Navy Exchange Program

The additional net profit which would result from credit card sales in exchanges would enhance the Navy Exchange Program's ability to meet recapitalization and MWR financial obligations. The increase in profitability accruing from credit card sales would help in defraying the following financial obligations:

- A current backlog of Navy exchange facility project requirements of approximately $168 million.
- An additional backlog resulting from a requirement to eliminate all World War II wooden structures by 1990. This action was directed by the "Military Construction Authorization Fiscal Year 1983", Calendar 626, Report No. 97-440. Approximately $400 million worth of exchange facilities were constructed prior to 1945.
- A $161 million backlog of MWR projects. Navy exchange contributions largely support MWR recapitalization programs.

- A requirement to maintain and operate mission essential exchanges, even if those exchanges are not profitable. In 1984, mission essential Navy exchange operations were subsidized by almost $435 thousand.

Credit card use in exchanges would also reduce the use of checks, and the subsequent losses for returned checks. There would be no similar losses on credit card transactions, since all credit card purchases would be authorized prior to the completion of the sale. Once an authorization number is given, the merchant bank assumes any loss responsibility.

Another financial benefit to the exchanges would be the reduction in the use of layaways. Layaways are currently the only way CONUS exchanges can offer a form of deferred payment. An average monthly inventory of $9.8 million is required to support the Navy exchange layaway program. Credit card use would substantially reduce this financial burden, since an estimated 60% of layaways would be converted to credit card purchases.

Financial Benefits to Service Personnel

The authorization to accept credit cards in exchanges would result in the following financial benefits to service personnel:

- A 1984 price comparison survey indicated that Navy exchanges provide a 22% savings when compared to the cost of average purchases for the same items at commercial stores. The use of credit cards in exchanges would allow the optimum use of our service member's budget dollars and would allow our customers to realize the full benefit of their exchange entitlement.

- Military families are required to move frequently, approximately every two to three years. This is a time when our military personnel are often dependent on credit cards to restock household supplies and cover "start up" expenses at their new duty station. The ability to use credit cards in exchanges would allow our customers to stretch their budget dollars.

- Service personnel could utilize the credit card purchasing power most in exchanges during peak buying periods such as Christmas, back-to-school, holidays and vacations. Currently, service members are forced off base to higher prices and lesser values.

- Credit card use in exchanges would reduce the service members dependence on certain commercial outlets which have predatory prices, excess credit lines and exorbitant interest rates.

Impact on Commercial Retailers

To determine the estimated impact on commercial retailers, the metropolitan Norfolk, Virginia area, where a large military complex exists, was examined. Annual commercial retail sales in the Norfolk metropolitan area total $802 million, while combined military exchange retail sales in the area are approximately $128.3 million. A $7.7 million, or 6% increase in military sales resulting from the use of credit cards, would have minimal impact (less than 1%) on private sector retailers in the Norfolk area.

Conclusion

A decision to allow the use of nationally known credit cards in military exchanges is sound, both from a financial and quality of life perspective. Additional profits from incremental credit card sales will be used to alleviate exchange recapitalization and MWR funding shortfalls. In addition, credit card use in exchanges will increase the level of service to exchange customers by allowing a form of payment common in the commercial sector.

HEADQUARTERS
ARMY AND AIR FORCE EXCHANGE SERVICE

POSITION PAPER

SUBJECT: Authorization to Use Third Party Credit Cards in Exchanges (i.e., VISA, Master Card)

1. Problem: The constant increase of requirements on funds generated by the exchanges to support new construction requirements; increased demands for dividends by Morale, Welfare and Recreation (MWR) activities; higher level of cost avoidance enjoyed by appropriated fund (APF) support activities due to exchange support; the number of loss activities being operated as mission essential, and the decreasing rate of real growth of exchange sales due to the relatively static clientele of exchanges, make it imperative to find a solution if exchanges are to continue to be solvent. Insolvency would require Congress to appropriate fund requirements to support MWR programs and facilities.

2. Background: Congress has authorized very limited APF support for construction of facilities for MWR activities, including exchange services. Nonappropriated fund (NAF) money has, therefore, been required to bear these costs. Exchange earnings are the major source of NAF money to pay for MWR construction, and under current APF constraints, practically the sole source of funds for exchange construction.

a. The current backlog of capital expenditure programs for AAFES construction is $1.2 billion.

b. In addition to those projects on military bases which we have funded in the past, recent developments have created unexpected major demands on our resources. These new requirements include exchange facilities for Ground Launch Cruise Missile (GLCM) sites; Strategic Training Range Complexes (STRC) and the Army Master Restationing Plan for Germany. Construction of replacement facilities by the Japanese government under the Defense Sharing Program may exclude exchange facilities in the future. We will have heavy extra funding requirements if we must also pay for construction of exchange facilities for stationing of the 10th Light Infantry Division at Fort Drum and the 6th Light Infantry Division at Fort Wainwright. As an additional impact, Congress has directed DoD to develop a plan to eliminate all World War II wooden structures by 1990. Since approximately 12% of AAFES facilities are in wood buildings, this will have a significant impact on financial resources.

c. The decreased authorization of APF for MWR activities causes these activities to search out additional sources of revenue, and exchange dividends are still the largest source. Of necessity, they must request additional funds from the exchange.

SUBJECT: Authorization to Use Third Party Credit Cards in Exchanges (i.e., VISA, Master Card)

d. We perform functions outside the exchange mission which have traditionally been a responsibility of APF. We do these at cost and at a substantial savings to APF. Examples of annual cost avoidance to APF are as follows:

Military Clothing Sales Stores Operations	$ 8,000,000
School Lunch Programs	2,800,000
Troop Issue Bread/Dairy Products at Cost	4,400,000
TOTAL	$15,200,000

These amounts continue to increase each year.

e. Loss activities: AAFES does what no other retailer would consider doing. In spite of minimal staff and operating hours, we continue to operate a substantial number of facilities at a loss because they have been certified by major commanders to be mission-essential. These include retail, food, automotive services, personal services and vending activities, plus paid-admission theaters. AAFES has 340 such facilities worldwide which lost $3,904,191 in FY 83. Additionally, we furnish 16mm movies to 611 free theaters for exercises and deployments, and at locations where patronage is insufficient to support paid-admission theaters, which cost an additional $2,448,000. The total is $6,352,191.

f. AAFES sales have only averaged a real growth rate of 2.02% from FY 75 through FY 84, compared to an average of 4.76% in the commercial sector. For FY 83, real growth was 1.1%, and for FY 84, there has been a decline to .5% in real growth.

g. Exchanges have a narrow base of customers: 4,866,848 [1] active duty military personnel and dependents, plus military retirees and their dependents.

h. Exchanges are limited in their merchandise assortments in that in CONUS they may not sell refrigerators, washers, dryers, furniture and stereo components, all of which are needed and desired by servicemembers and their families.

3. Use of credit cards:

a. Use of credit cards has become an accepted practice on the part of American consumers. This use permits consumers to accommodate personal budgets to seasonal buying requirements such as Back-to-School, Easter, Christmas, etc.; to handle unexpected contingencies without destroying budget or requiring withdrawal from savings; to reduce the amount of cash needed to be carried; to simplify bill payments, and to write only one check to pay for many purchases.

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[1] Compilation and Examination of FY 83, MWR Financial and Personnel Reporting Data, Rosebud Software, P.O. Box 2458, Columbia, MD, 21045.

SUBJECT: Authorization to Use Third Party Credit Cards in Exchanges (i.e., VISA, Master Card)

b. A Nilson Report of June 1983 shows that in 1982, of the $2.0 trillion personal consumer expenditures, $208.1 billion was charged on credit cards. In 1983, the figure increased to $293.3 billion [2]. Outstanding consumer credit increased from $39 billion in 1970 to $108.3 billion in 1983, and the Federal Reserve Bulletin of December 1984 states that it increased 20.8% from July 1983 to July 1984.

c. Many exchange customers already have and use credit cards. In fact, a study conducted for the Navy Exchange in 1983 showed that 50% of their customers held major credit cards, including 80% of career enlisted personnel. This survey also stated patrons preferred credit card purchases to layaways (67.8%).

d. We do not believe authority to use the cards in exchanges will increase debt. We look for a reduction in the debt problem when servicemembers will be able to purchase in exchanges, on credit, taking advantage of lower prices.

e. It's obvious restrictions on credit sales at exchange facilities do not prohibit servicemembers from going into debt to acquire desired commodities and services. Considering the extent of credit card usage, to deny the privilege to exchange service customers discourages military personnel and their dependents from taking advantage of lower priced exchange merchandise. In some cases, they are forced to use high cost "easy" outside credit which syphons away potential MWR revenue, and could create financial hardship for these servicemembers.

4. We estimate that credit card sales will be about 15% of total domestic retail sales for exchanges, and incremental sales will increase approximately 6%. These figures are supported by our experience overseas with the Deferred Payment Plan which showed that in 1983 while worldwide retail sales increased 3%, total DPP sales increased 9%, for a net increase of 6%. This is further borne out by the National Retail Merchants Association (NRMA), which shows credit sales with third-party cards range from 1.4% to 12.2%, with a median of 6.6% [3].

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[2] Reports #309 (Jun 83) and #347 (Jan 85), the Nilson Report, P.O. Box 49936, Los Angeles, CA, 90049.

[3] NRMA - 1984 Merchandise Operating Results.

SUBJECT: Authorization to Use Third Party Credit Cards in Exchanges (i.e., VISA, Master Card)

5. If use of credit cards had been authorized in 1983, the most recent year for which total sales figures are available, the result would have been as follows: Private sector retail sales in the United States were $248.7 billion. Sales of the top three retailers--Sears, K-Mart and J.C. Penney--amounted to $51.1 billion of that total. Domestic military exchange sales for that year were $3.0 billion. Using the 6% estimate of increased sales, $180.0 million would have been added to exchange sales. That increase would have amounted to 0.0035 of the total sales of Sears, K-Mart and J.C. Penney, and 0.0007 of total private sector retail sales. This is not a major competitive threat.

6. Although exchange credit card use will not have a major impact on commercial retailers, it will impact on those merchants offering "easy credit" who prey on lower ranking military personnel. These merchants' selling prices are often double the exchange prices. For example, in a comparison survey conducted in San Antonio, Texas in January 1985, a Kenwood/428 music system at AAFES sell would be $599 but at a strip shopping center store outside the base, the sell was $1,399.99. In this example, a customer purchasing the music system at AAFES on credit (based on maximum credit charges authorized by the State of Texas with a 23-month payback) would pay $723 while at the other store, the system would cost $1689 plus charges for a service contract or extended warranty and various insurances, with a total of approximately $2300! Unfortunately, our military members will buy this $2300 stereo because they cannot purchase the item on credit at the exchange. By entering into voluntary pay allotments to a bank and then specifying the bank turn the money over to the outside store for monthly installments, the customer can receive the stereo immediately. This type transaction not only costs the individual servicemember, but also costs the Services, considering the additional allotment transactions.

7. Higher prices:

a. Credit does cost the organization offering it. However, we calculate that revenue from modest sales increases will pay credit card costs of 2% and also produce additional earnings for MWR dividends. Therefore, prices will not be increased to offer this service.

b. Considering other restrictions on exchange operations, the use of credit cards is one of the few areas which will provide us an opportunity to gain a greater share of the customer's disposable income. This will help to finance the programs discussed. Because individuals prefer using credit instead of layaways, there are other cost saving benefits. Immediate purchase reduces layaway storage space, security requirements, inventory and handling costs, and increases stock turnover and cash liquidity. This could also cause reduction of change fund levels and reduce losses for returned checks.

SUBJECT: Authorization to Use Third Party Credit Cards in Exchanges (i.e., VISA, Master Card)

8. Highlighting the increased demands for AAFES funds —

- Over $1 billion in capital expenditure backlog

- New and replacement construction for exchange facilities due to mission changes and increases

- Reduction of APF support for MWR activities

- Performance of APF activities such as clothing sales stores, school lunch programs and troop issue bread/dairy products at cost

- Continued operations of loss activities and free movies

With a fixed clientele and a decreasing rate of real growth, the demand will soon exceed available dividends generated by AAFES. To generate increased money, either prices must be increased or credit must be authorized.

9. Rather than increasing prices and risking further erosion of our customer base, we feel authorizing the use of credit will generate increased dividends. We can increase sales and real sales growth without increasing prices and possibly even reduce the debt level of our servicemembers.

10. Considering these factors, authorization of credit card use in the exchanges is a sound business and Service decision. Credit authorization will assist us to meet the increased demands for funding and still perform our mission.

DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
WASHINGTON, D.C. 20380

IN REPLY REFER TO
4066
LFE-kbw
2 APR 1985

POSITION PAPER

Subj: AUTHORIZATION TO USE THIRD PARTY CREDIT CARDS IN EXCHANGES

1. Purpose of Paper. To identify the economic impact of credit card use within exchanges on the Marine Corps exchange system and the commercial sectors adjacent to our bases.

2. Marine Corps Position. The principal reason the Marine Corps desires credit in exchanges is as follows: Use of credit cards in military exchanges will allow authorized patrons to avail themselves of their privilege to purchase items from the exchange at the 20+% savings when it is not convenient for these patrons to pay cash.

3. Operational Dilemma of Exchanges

a. Exchanges have the dual mission of offering merchandise at a savings to their patrons and providing funds in support of recreation.

b. For the past several years inflation has impacted more severely on the exchanges' cost of doing business than on their sales. For example, in 1984 the cost (measured by the Consumer Price Index) increased 4.0% while the sales (measured by the Department Store Index) increased 1.3%.

c. The solution to this problem is to have incremental sales increases, which require some real growth, be equal to or greater than the expense increases. Civilian retail strategies to get the increased sales include: acquiring competitors, entering new geographic areas, targeting new groups of consumers, expanding into the services market, and getting a bigger share of existing patrons' disposable income.

d. The unique nature of military retailing eliminates the first three potential strategies. Exchange systems need to pursue, and the MWR panel needs to understand, the need for exchanges to implement the fourth option, that of offering new services.

e. Authorizing credit within exchanges will enhance exchanges' ability to pursue the fifth option, i.e., to expand sales to their existing clientele.

4. Credit Card Impact on Exchange Sales and Profit

a. If credit cards had been authorized in 1983, the most recent year for which total sales figures are available, the impact would have been as follows:

Subj: AUTHORIZATION TO USE THIRD PARTY CREDIT CARDS IN EXCHANGES

Sales in those activities that would be authorized to accept credit cards would have increased between 6 and 8% from $325 million to approximately $348 million or about a $23 million increase. This increase in sales would generate an additional $600 thousand net profit after consideration of credit card expenses of about 2% of the total sales for which credit cards are expected to be used (15 to 20% of total sales based on available information).

5. Impact of Exchange System Credit on Commercial Retailers. An analysis of the commercial retail sales of those commodities that would be impacted by military exchange system credit card use was conducted for the cities and surrounding areas of San Diego, California, San Antonio, Texas, and Norfolk, Virginia. Sales data for the commercial sector is as reflected in the Chambers of Commerce reports for calendar year 1983 and compared with 1983 sales data for all the military exchanges within the same geographic areas.

	General Mdse Sales			
Area	Commercial Sales	Military Sales	7% Increase From Credit	% Impact On Commercial Sales
San Diego	$3.553B	$190.5M	$13.3M	.37%
San Antonio	2.061B	112.6M	7.9M	.38%
Norfolk	802M	128.3M	9.0M	1.12%

As shown in this analysis, the impact of credit card use in military exchanges on the commercial retailer would be minimal.

from MRD – 9/26
to Jim only

DEPARTMENT OF DEFENSE
Navy Resale and Services Support Office, Ft. Wadsworth, S.I., N.Y. 10305
Army and Air Force Exchange Service, Dallas, TX 75266-0202
Marine Corps Exchange Service Branch, Quantico, VA 22134

Honorable Dan Daniel
Chairman
Morale, Welfare and Recreation Panel
Committee on Armed Services
House of Representatives
Rayburn Building Room 2120
Washington, D.C. 20515

Dear Mr. Daniel:

During the MWR Panel's information gathering session on the use of credit cards in military exchanges held in October 1984, a Federal Reserve System study, "Credit Cards in the U.S. Economy", was cited as an authoritative source of information. As you may recall, some of the points made in this study appear contradictory. The reason for these apparent contradictions is that over twenty-five credit card articles and studies, spanning a fifteen year period, were used in the development of this report.

We have enclosed an abstract of "Credit Cards in the U.S. Economy", which emphasizes the more positive points supporting credit card use in our exchanges. Briefly summarized, the abstract indicates that:

- One-half of credit card users only use credit cards as a convenient form of payment and rarely pay interest.

- When the costs of handling cash and check transactions are considered, the increased cost of a credit card transaction is minimal.

- Revenues from incremental credit card sales more than offset credit card transaction costs.

We hope this abstract is useful in answering some of the objections traditionally raised against credit card use in exchanges.

We appreciate your continued consideration of the credit card issue. Please let us know if we can provide any additional information.

W. R. Irwin
Colonel, USMC
Head, Marine Corps
Exchange Service Branch
19 MAR 1985

Richard D. Murray
Major General, USAF
Commander, AAFES
20 MAR 1985

D. E. Wilson
Rear Admiral, SC, USN
Commander, NAVRESSO
1[illegible]

CREDIT CARDS IN THE U.S. ECONOMY: THEIR IMPACT ON COSTS, PRICES, AND RETAIL SALES

AN ABSTRACT

The Board of Governors of the Federal Reserve System conducted a study in 1983 entitled "Credit Cards in the U.S. Economy: Their Impact on Costs, Prices and Retail Sales." The study was prepared in response to a Congressional request for a report on the economic impact of credit cards. This report was deemed necessary to evaluate a law that encouraged the offering of price discounts tor payments by cash. The primary focus of the study is on the costs associated with credit card transactions, compared with the costs of cash and check transactions.

The study also provides information regarding patterns of credit card use by customers. The study indicates that approximately one-half of the households in the United States hold one or more bank credit cards, but the use made of these credit cards varies substantially among households. There are two patterns of usage which are described as "convenience use" for transaction purposes and "installment use" for borrowing activity. From responses to questions concerning repayment practices on credit card amounts in a 1977 Consumer Credit Survey, it appears that about half of the U.S. cardholders are convenience users and the other half installment users. The convenience user utilizes credit cards because they permit users to carry smaller amounts of cash; they are easier to use than a check; and they generate receipts which may be used for recordkeeping, for facilitating merchandise returns or for expense reimbursement. The use of a credit card also provides short-term "bridge" credit when required; however, convenience users usually pay the complete bill monthly and rarely incur interest charges.

The installment user utilizes this form of payment for the advantages of borrowing by credit cards. Card users can "borrow" in the exact amount they want to spend. There is also payment flexibility with credit card accounts which is not available with other forms of installment credit. Credit card users may pay any portion of the balance owed from the minimum amount required up to the entire balance. Additionally, users need only make one credit application, and thereafter can borrow with ease.

As indicated above, the Board of Governors researched the costs to retailers of credit card, cash and check transactions. A 1980 study conducted by Payment Systems, Inc. (PSI) examined the costs associated with cash transactions, measured on a per transaction basis. PSI concluded that "the per retail transactions cost of credit cards and cash is near the same -- about 45¢ -- and checks only carry a small margin of higher costs" (Table 1). PSI stated

that "the costs of handling cash are many times higher than previously believed," and thus "retailers should take a new look at operating efficiencies in payment acceptance and at the comparative acceptance of new payment methods."

A 1981 study by R. Grant, entitled "Transaction Costs to Retailers," examined retailer experience in the United Kingdom. This study concluded that the costs associated with credit cards exceeded the costs of cash or check by approximately the amount of merchant discount fees, and that these costs are more than covered by increased sales generated by credit cards (Table 2).

TABLE 1

HANDLING COSTS OF CASH BY MODE OF TRANSACTION

	PER TRANSACTION (MEANS)		
	CASH	CHECKS	CREDIT CARDS
POINT-OF-SALE TRANSACTION	$.24	$.40	$.36
REPLENISH REGISTERS	$.05	----	----
RECONCILE REGISTERS	$.08	$.05	$.03
RECONCILE IN-STORE CONTROL	$.02	$.01	$.01
RECONCILE OUT-STORE CONTROL	$.02	$.01	$.01
PREPARE DEPOSITS	$.03	$.02	$.02
TRANSPORT DEPOSITS BY INTERNAL EMPLOYEE	$.01	$.01	$.01
TOTAL	$.45	$.50	$.44

SOURCE: PAYMENTS SYSTEMS INC., COST OF CASH: A STRATEGIC ANALYSIS, 1980

TABLE 2

AVERAGE COSTS OF CASH, CHECKS & CREDIT CARDS AS A PERCENTAGE OF RETAILERS REVENUE FROM EACH TYPE OF PAYMENT - 1981

	CASH %	CHECK %	BANK CREDIT CARD %
DISCOUNT CHARGE	-----	------	2.55
SALESPERSON'S TIME	0.17	0.27	0.19
ADDITIONAL COST OF ADMINISTRATION OF CASH & CREDIT ACCOUNTS	0.40	------	----
COST OF BANK VISIT	0.35	0.17	0.66
BANK CHARGES	0.28	0.40	0.37
COST OF CREDIT	0.06	0.06	0.12
LOSSES FROM ERROR, THEFT, FRAUD	0.25	0.15	0.01
INSURANCE	0.05	0.01	0.01
TOTAL OF POSITIVE COST ITEMS	1.56	1.06	3.91
REDUCTION IN UNIT OVERHEAD COSTS ARISING FROM INCREASED SALES GENERATED BY CREDIT CARDS AND CREDIT ACCOUNTS	----	----	-5.57
NET COST	1.56	1.06	-1.66

SOURCE: R. GRANT, TRANSACTION COSTS TO RETAILERS, 1981

Mr. DANIEL. We are very pleased to have so many visitors today. The Chair recognizes most of you, and I want to take this opportunity to publicly express appreciation of this panel and of our committee for the contribution that all of you have made to the betterment of our military personnel.

Before continuing, I believe we will go and vote and we can then conduct the questioning without interruption. We do have one new panel member with us today, Mr. Martin from New York. Mr. Martin, it is mighty good to have you with us, sir.

Mr. MARTIN. Thank you, Mr. Chairman.

Mr. DANIEL. We will recess until we have had an opportunity to vote.

[Whereupon, at 2:14 p.m., the panel recessed and reconvened at 2:31 p.m.]

Mr. DANIEL. The panel will resume its sitting. Mr. Calhoun, the military exchange systems do not operate in a free enterprise system, even though many commercial retailers believe they do. Would you describe to the panel the congressional restraints and other limitations under which the exchanges are operating?

CONGRESSIONAL RESTRAINTS ON EXCHANGES

Mr. CALHOUN. These activities operate under a number of constraints.

First of all, they operate under the constraints of a limited and very defined marketplace. That marketplace, with respect to its revenue and availability of revenue, is very defined and not free flowing, as contrasted with the private sector.

The pay cycles are different, the income levels are very defined. The impact upon the exchange system is very predictable insofar as when allotments are given.

The choices of merchandise in that enterprise are defined, not by the marketplace, but by this committee.

Obviously, they are confined and it is a facet of that environment that brings us here today. As I have pointed out in my statement and as you have pointed out in yours, sir, they have—they—the service members and their families—have a very defined tender and they do not have the economic and financial freedoms of selection based on that selected tender that is available to them.

So, in a very thumbnail way, those I would offer as being the differing points between the exchange environment and the private sector.

And I would say, just in summary, sir, with regard to that question, that I think that our service members and their families are at a severe disadvantage as a result of the proscriptions that are in place insofar as how they behave within that environment and, of course, how that environment is constituted with regard to their selections and choices.

Mr. DANIEL. Do any other members of the panel desire to add to what the Secretary has said? General Chavarrie.

General CHAVARRIE. Yes; sir. I would just echo that. I think the points are that in the commercial and the private sector the arguments are made sometimes that a good many people are able to visit the exchanges when in fact they are not. It is strictly limited,

of course, to active duty, retired, Medal of Honor holders, Reserves, and that is about it. So it is not, as Mr. Calhoun said, a large, large segment. Out of 245 million Americans there might be somewhere between 6 and 8 million persons eligible to use it. And then, also, of course, we are limited by what we buy.

So, certainly, exactly what Mr. Calhoun said, we have limited clientele and we have limited types of goods that we can sell. So there is a disadvantage with the commercial sector, with the private sector.

I think sometimes the competitiveness is not realized because it is not thought of in those terms.

Mr. DANIEL. Anyone else?

Admiral WILSON. Mr. Chairman.

Mr. DANIEL. Admiral Wilson.

Admiral WILSON. I think sometimes there is some confusion when we talk about credit and competing with industry. We are restricted from competing with industry on an aggressive price comparison basis. We do not do that, nor do we try to do that. Nor do we sell those durables such as washers and dryers and refrigerators and freezers or TV sets. Nor do we sell high cost items in the jewelry area where we are restricted by cost limitation ceilings, by product line.

So it is a restricted community and we are providing our customers, our military personnel and their families, with those items that are commonly used in terms of clothing and health, luggage, and other series of product lines.

Mr. DANIEL. Anyone else? Mr. Calhoun, sitting behind you is a walking encyclopedia on this subject, Clare Moelk. Clare, I wonder if you have anything? Would you object if he added anything he might have to what you have said?

Mr. CALHOUN. Not at all, sir.

Mr. DANIEL. Clare, do you have anything you would like to add?

Mr. MOELK. No, sir; I think they have basically covered it.

Mr. DANIEL. Well, then, I am satisfied with the answers. [Laughter.]

Mr. CALHOUN. You had us worried there for a minute, Mr. Chairman.

Mr. DANIEL. Mr. Whitehurst.

Mr. WHITEHURST. Thank you, Mr. Chairman.

Mr. Calhoun, you may want to get this information for the record unless that gentleman in the back has this, too. What is the total amount of commercial retail sales in the United States? What percentage of those sales are military exchange sales?

And then—that's just as a background. But in view of this relationship, what do you believe would be the effect of the use of credit cards in exchanges on commercial retail sale operations?

EFFECT OF USE OF CREDIT CARDS ON EXCHANGES

Mr. CALHOUN. I do not have the answer to the first part of that question. We will submit that for the record, sir. (See p. 30.)

Mr. WHITEHURST. That is fine.

Mr. CALHOUN. I would be very interested to know that myself. With respect to the second part of your question, I believe that the impact on retail commercial sales would be negligible.

Mr. WHITEHURST. Negligible?

Mr. CALHOUN. If at all. I would suggest, based on the data that I have seen, which is certainly not all-encompassing, but based on the last 2 years that we have considered this notion, we suggest that it would be less than 1 percent impact on commercial retail sales.

Now, there is a point of view that I would like to offer, and that goes something like this. It has been said that if we introduce credit cards into the exchange system that we may impact the retail commercial sales.

I would submit that perhaps it could be looked at that we are going to be able to retrieve some of the revenue and some of the sales volume that we have lost to the retail commercial world.

I say that only because we have been denied the use of credit cards in our exchanges heretofore.

Mr. WHITEHURST. I want to ask a related question to Admiral Wilson and General Long, and I would like both of you gentlemen, if you would, to answer this.

Both the Navy exchange and AAFES have conducted price surveys of retail stores near military installations that offer lower-grade enlisted personnel credit. I think that the panel would be interested in knowing what the results of those surveys were, and if there was a substantial price differential, what causes it?

General LONG. Sir, as far as the AAFES is concerned, we conducted a survey in September 1983 and also in January 1985. It indicated that they were, on the average, 46 percent higher than we were. Generally they charged the maximum allowable credit under the State law that they were operating within. That is what our survey showed.

Mr. WHITEHURST. Admiral Wilson.

Admiral WILSON. Mr. Congressman, our survey, our price survey shows that across all product lines the Navy exchange saves the customer 21.8 percent, that is our 1984 survey results.

Mr. WHITEHURST. I have some other questions but I want to give other members a chance to ask questions. Thank you. General Long?

General LONG. Sir, if I may, on your first question as to the percent of the retail sales?

Mr. WHITEHURST. Yes?

General LONG. We checked the report to the President, that on nondurables, the sales were $414 billion. Now, if you took similar data of all the military exchanges together, ours would be roughly $3.7 billion, which is 0.9 percent, nine-tenths of 1 percent of the total.

Mr. WHITEHURST. I'd just like to make an observation also, Mr. Chairman. I think all of us want to proceed cautiously with any legislation or changing of the rules regarding the use of credit. I have received three letters in opposition to this. Strange to say, all letters, although they were individually written, the language was the same, the phrasing, the words, right down to the paragraphs.

One came from my district and two came from outside, I just mention it for the record. Thank you.

Mr. DANIEL. Mr. Nichols.

Mr. NICHOLS. Thank you, Mr. Chairman.

Mr. Secretary, I want to question you just a little bit about a statement you made, a statement, if I can find it. You said, according to the Department of Defense proposals, that the exchanges will not be involved in determining the creditworthiness of their patrons since this will be the responsibility of the company that issues the credit card.

I gather we are talking about a bank that is doing business with Visa, MasterCard, et cetera, and they seem to be tightening their rules for creditworthiness.

It appears to me that many of our lower grade enlisted people, E-1's and maybe on up to E-4's for that matter, might not be able to participate in this program.

Now, Mr. Chairman, it has been my observation that the credit card issue has been sold partly on the fact that here are these E-1's and E-2's and E-3's, just married, they need certain items, and they cannot get them. So they have to go outside. And they are charged exorbitant interest rates by stores on the outside. They oftentimes wind up with inferior merchandise. I am not altogether impressed with that, because I have personally visited some of these stores that have been named to me, both in the Washington area and in the Quantico area. And if that is all the competition the exchanges have to worry about, they do not have a problem, in my judgment, based on the observation I made.

I am concerned that if we do approve credit cards—and I understand the case that you are making for credit cards. I am not altogether of closed mind on it, but I want to be darn sure that the grunts are going to be taken care of in this thing and going to be able to get credit.

In that connection, let me ask you, does the Department of Defense have any other proposal under consideration other than your major credit cards, doing business with the banks? Who would make judgments on whether to lend or not to lend credit to this junior man, that would take care of that man? I am very much interested in him being taken care of if we get into this program.

Mr. CALHOUN. We, too, are very interested in fair and equitable consideration of our service members concerning credit and its usage. I would say that, first of all, we would respect the relationship between a lending institution or an institution that issues credit cards, such as a bank, and its customer, be it a service member or not. We would not insert ourselves into that relationship.

Based on information that we have accumulated of late, suggests that E-1's and E-2's can and have been issued credit cards based on their creditworthiness. We understand that some banks around some of our major installations have just looked at debt ratio. For example, debt ratio being 35 percent or less, credit cards are currently being issued to individuals who fall into our lower ranks, E-1 and E-2.

I am sure that each of the members of the committee and I am sure that my colleagues here at the table are not surprised that at

least a month does not go by that you have two or three applications for approved credit in the mail as you get home. And that is only to say that, though there is some tightening, I am led to believe that credit cards would not necessarily be denied en masse for E-1's and E-2's. I think, sir, that they would be eligible and have been issued credit cards.

Right now we see that about 50 percent of all our enlisted personnel have either Visa or MasterCard. We also understand that about 80 percent of all of our career force, to include officers—which is not a point of the question, but only for the record—have one or more of these two types of cards. We are certainly interested in seeing that the benefits, that would come as a result of a favorable decision on this, accrue to all of our service members, and we would do whatever is in our power to insure that.

Mr. NICHOLS. Well, I am not particularly interested in the officers. Officers can take care of themselves.

Mr. CALHOUN. Yes, sir.

Mr. NICHOLS. They have got more credit cards than Carter had oats. They have got more than—I have a pocket full of them here that my wife does a pretty good job of utilizing. [Laughter.]

Mr. DANIEL. Will the gentleman yield on that point?

Mr. NICHOLS. Yes, sir, I yield to my chairman.

Mr. DANIEL. I do not mean the credit cards for your wife, but I mean the other point.

General Long, is it not true that credit has been withdrawn from E-1's and E-2's in Europe?

General LONG. No. Under the DPP Program?

Mr. DANIEL. I do not know what sort of a program it is under but——

General LONG. No, sir, it has not been withdrawn.

Mr. DANIEL. It has not been withdrawn. Thank you.

General LONG. They still have limited——

Mr. NICHOLS. Let me give you—back to the Secretary, if I might. Remind me, what is the basic pay, cash pay, that an E-1 gets a month? What is it? $500? $600?

General CHAVARRIE. $600.

Mr. CALHOUN. $600.

Mr. NICHOLS. About $600. That is $7,200 a year. Are you telling me that your major credit card people have no problem in issuing credit cards to a man with an income that low?

Mr. CALHOUN. My understanding, sir, is as long as that debt ratio is within the threshold mentioned, there seems to be no problem. I would like very much to defer to my colleague from the Marine Corps who was a principal in that research and perhaps could speak with more detail.

Mr. NICHOLS. Colonel?

Colonel IRWIN. Yes, sir; Mr. Nichols. Just yesterday I was curious to know the number of junior members of the Marine Corps who could get credit and those who could not. It appears that the policies are different by States and by banks within different States. I phoned three of the banks that the Marine Corps does business with in the exchanges. The most lenient said that if you made $600 gross pay per month and you were affiliated with a bank and you did not have a debt ratio over 35 percent, they would grant credit.

So that would take care of the E-1 immediately in the Marine Corps.

Another bank that I contacted replied that it needs $700 per month gross pay and two credit references. That takes care of an E-2 in the Marine Corps.

The third bank, the most restrictive, said you had to make $1,000 per month and had to have fixed expenses that did not exceed 80 percent of your income. You had to have a bank affiliation, and you had to have a credit reference. Now, that brings that person who can get credit up to an E-4 with 4 years of service.

Although I did not phone more banks, I got the general impression that, depending upon the part of the country and the bank, you could get a limited line of credit as an E-1. But not every bank would give that junior man the credit he asked for.

Mr. NICHOLS. I thank you for that information. It is good to have it on the record, and I appreciate it. Mr. Chairman, I am not trying to saddle whatever lending institution may be selected on this credit card business with some poor payers. I am not trying to push that on them. But I just think a great deal of thought ought to be given to assuring this committee that the junior man is taken care of, because that is the premise on which much of the arguments that I have heard were made.

Thank you, Mr. Chairman.

Mr. DANIEL. General.

General CHAVARRIE. Mr. Nichols, if I may say, I think the fact that we are getting the quality folks that we have gotten in the past 3 or 4 years—we have 93 percent high school graduates, and all the good statistics, scoring very high on their ASVAB [Armed Services Vocational Aptitude Battery] scores, their entrance scores—and then we have certain programs that will counsel them and help them. I think all that will help to qualify these people so that their debt ratios are right, and the $600 a month folks will be able to get credit.

Mr. NICHOLS. That is well and good, but I expect the banks are going to be much more interested in how a man pays the debts than in what kind of an ACT score he may have gotten out of high school.

General CHAVARRIE. Right. I am just saying, these are higher quality folks and they would be, by definition, I suppose, more responsible.

Mr. DANIEL. On that subject let me ask the other side of the question. One of the concerns that has been raised to me is how many of these E-1's, E-2's, E-3's, and E-4's might overextend themselves if they got credit. Would somebody address that? Have we had any experience with it?

Mr. CALHOUN. Most of the members here do have some data. Just generally speaking, we find that—let me say—the bad debt as opposed to indebtedness—I think all of us are indebted in some way or another and some of that is good—is less, generally, than in the private population at large, considerably less. So I think that our record is very sterling in respect to performance as a community. But perhaps some of the services would like to speak to that as well.

Mr. DANIEL. Would anyone like to address that? Admiral Wilson.

Admiral WILSON. The best indicator that the Navy has is bad checks, or check writeoffs. And as you know, today, with direct deposit, many of the kids have direct deposit checking accounts. Our total check writeoff as a percentage of Navy exchange sales, is only four-hundredths of 1 percent. Or looked at another way, of the total percentage of checks written in dollars, as a percentage of that, the bad check writeoff is one-tenth of 1 percent, of which only 55 percent of the total dollars are the E–4's and below. I think that speaks well of our junior enlisted men and their acceptance of personal responsibility for personal debt. They are just not overextending themselves.

General LONG. Our statistics——

Mr. NICHOLS. Would the gentleman yield? I have a question for General Long, if I might, in connection with that. We just heard the Navy experience. My understanding is that AAFES' bad checks increased by half at the end of the first quarter. What is the reason for that?

General LONG. Yes, sir, they did. The reason for that is, and we experienced the same thing in the Air Force, is when the Army went to sure pay, the check to the bank program, we experienced an increase in dishonored or bad checks. We experienced the same thing in the Air Force. It turned itself around.

Interesting, though, sir, during this same period of the increase, the writeoffs decreased 6 percent. We had a 31-percent increase in dishonored checks but they were all collectible. And the writeoffs actually decreased.

We found that some of the more inexperienced check holders try at the end of the month to maybe extend it. They do not know how fast, with the speed of light, that you can get your check to the bank and be debited to your account. Credit, of course, would enable them to sort of spread that at the end and not take these risks.

As I said, with the Air Force it returned right back to a normal curve, and I would expect the same thing in the Army.

Mr. NICHOLS. Thank you.

Mr. DANIEL. Mr. Martin.

Mr. MARTIN. Thank you, Mr. Chairman.

Mr. Calhoun, one of the figures you talked about before was on the basis of how much of the total retail trade was done in the exchanges. But do you have any projections exchangewide as to what you expect the increased sales to be if credit cards could be utilized in the exchanges? Do all the services do their own or do you have figures for the services?

Mr. CALHOUN. The numbers I used are generalized across all of the exchanges and the exchange commanders certainly will give you their specific information.

The data I have seen indicate that probably our credit business will constitute about 15 percent of total sales. The other part of the answer may be that in terms of incremental sales we expect somewhere in the neighborhood of perhaps 6 percent. And within that 6 percent increase, of course, the attendant question is, how much of that goes for fees and startup costs and those kinds of things? We are looking, based on projections, of a merchant discount fee not to exceed 2 percent of sales.

Mr. MARTIN. How about—again, we just noted I am the new member around here. What impact is this going to have, if you know, or is it of any concern to you whatsoever, about the credit unions on the various bases? Have you heard from them? Have they weighed in on this?

Mr. CALHOUN. I have not heard specifically. Anything that I could offer would be opinion on my part and I would be happy to give you that.

Mr. MARTIN. OK.

Mr. CALHOUN. It would seem to me that they probably will be very supportive of this, because the credit unions—be they the Pentagon Federal Credit Union or the service credit unions—offer Visa cards or MasterCards.

I think also that they may be very much in favor of this because it basically may enhance some of the cash-flow that would come to them otherwise through savings that unfortunately people cannot use because they have to deal in cash transactions in the exchange. They could take, therefore, more discretionary money that could be deferred by credit card and put it into a savings account.

Those are just off the top, sir. I cannot really think of any reasons why a credit union would oppose, except to promote indebtedness, and that is something I think the committee is not in favor of.

Mr. DANIEL. Will the gentleman yield?

Mr. MARTIN. Certainly.

Mr. DANIEL. Has the staff had any comment from the credit unions?

Mr. WATERS. No, Mr. Chairman.

Mr. DANIEL. Thank you. I thank the gentleman.

Mr. MARTIN. They have become a lot more sophisticated since I used the base credit union, apparently. They are into credit cards and that type of thing, I thought perhaps they might have some complaint they were not being able to make loans for people who want to make a little bit bigger purchase and they had the money for it.

Another thing, on the general operation of the exchanges, can you speak to me about what if any percentage of their budget in the exchange is used for advertising?

Mr. CALHOUN. I do not know that.

Mr. MARTIN. Flyers, radio, TV?

Mr. CALHOUN. If I could defer to General Long?

General LONG. Well, of course, as you know, we do not advertise in the off-post media or in any media such as that. The only form that could be considered advertising, I assume, would be our promotional flyers that we would put in the store, just in the store, to let the customer know those items that would be on sale. Generally those are vendor supported. They are contractor supported for a voluntary price reduction, and a certain percentage of that would go to defray the cost of the printing of that type of promotional material. Other than that, we do not advertise.

Mr. MARTIN. There is nothing in any—the base paper, that type of thing?

General LONG. Occasionally, sir, there are advertisements in the base paper, Again, those are generally placed there by the vendor,

as opposed to the exchange. They are put there by a contractor, who may be promoting a product or selling a product, and say, these advertisements may be available at your local exchange.

Mr. MARTIN. But that it is not the policy—are there any restrictions against the exchange advertising in the local newspaper or on radio or television?

General LONG. Yes, sir.

Mr. MARTIN. OK. I thought that was the case. Because I just had not seen it, I thought perhaps I was missing something.

Admiral WILSON. I suspect, Mr. Martin, that——

Mr. DANIEL. Admiral Wilson.

Admiral WILSON [continuing]. As a percentage of sales, that AAFES looks a lot like I do. My actual budget is less than one-tenth of 1 percent for promotion, like flyers.

Mr. MARTIN. That is negligible.

Admiral WILSON. To inform the customer of his benefits.

Mr. MARTIN. Just one more question.

Mr. DANIEL. Will the gentleman yield on that point to Mr. Waters?

Mr. WATERS. Thank you, Mr. Chairman, let me go back to the response regarding the 15 percent of total sales would be credit card sales.

In a 1984 publication entitled "Modern Retailing" done by the University of Alabama it shows that credit as a percent of total sales ranges between 58 and 64 percent in leading department stores. Also AAFES' statistics for its deferred payment credit plan shows that customer participation runs about 38 percent. Is there any explanation for those fairly substantial differences?

Admiral WILSON. If I may, Mr. Waters, I believe the first data that you are quoting is where they have inhouse cards such as the Sears card or the Penney cards and those statistics are right. For third-party cards, however, which is what we are requesting, the statistics run much lower—in the neighborhood of 15 percent. As to why our statistics on DPP are 38 percent, I think is because of the availability and the favorable interest rate that we have overseas for the consumers.

Mr. WATERS. OK. Thank you.

Mr. DANIEL. Mr. Martin, please proceed.

Mr. MARTIN. That brings up another question. I want to make sure I understood what the answer was. My question was, what do you project would be your increased aggregate sales if you were allowed to use credit cards, third-party credit cards? That is what I thought the 15 percent was.

PROJECTED SALES DUE TO CREDIT CARD USE

General LONG. The 15 percent would be the total amount of sales on credit. Incremental growth, in other words, new sales, as a result of credit, is estimated at 6 percent.

Mr. MARTIN. Oh. OK. I'm glad Mr. Waters asked that question because I was confused with those numbers.

Mr. DANIEL. Mr. Leath.

Mr. LEATH. Thank you, Mr. Chairman.

Mr. Chairman, I suppose everything is relative. Certainly I can understand the eagerness of these gentlemen. It is their job to do what they are doing. I can understand our general acceptance of that because, you know, we always make these proposals based on the fact that it is going to help the troops, so forth and so on. Many times that is true; most times that is true.

I think what we see is a constant tendency to keep expanding the scope of these exchanges. As we expand their scope, regardless of whether it is credit cards, or warehouses, or whatever, we are always saying, it will not hurt anybody. It will not hurt the private sector.

We have heard some statements here that, well, we have a limited clientele. Apply that nationally, it is 6 million people as compared to 230; the impact will be negligible.

Gentlemen, you cannot do that because all of these areas are concentrated. You cannot apply a national statistic to Bell County, TX, where you have 42,000 troops and probably 20,000 retirees, and tons and tons of other people that are eligible for exchange privileges. So when we sit here and say, well, that is not going to hurt those merchants, you are just not living in the real world. You are sitting over there in the Pentagon dreaming up figures.

I am living in the real world because I have been on the telephone constantly for 2 weeks with people calling me about this credit card issue. Not only that, I've spent more personal time trying to solve problems that the Exchange Service creates for me at Fort Hood than I do any other single thing that I do. My gas people call me saying, we are going broke because the exchange people find the first jack-leg outfit that they can find that has got the cheapest price and base the exchange price on that. We cannot compete based on what we have to pay. And it goes on, and on, and on. So I think we just need not to have a love feast here and talk about how nobody is going to get hurt and this is going to be a blessing and windfall for everybody, because that is not true. You start doing things like this, you expand the scope of anything the exchange does on the post out there, it affects merchants. And it affects some of them to the extent that it may be just that margin that keeps them in business or takes them out of business.

So, you know, I think that we are going to have to start looking at these things with a little bit more realism. You know, perks are wonderful things, but perks are not as important to soldiers and sailors today as they were when soldiers and sailors were making $50 a month, or $100 a month. You know, we have a pretty good pay scale right now for people in the Armed Forces. And for us to take the attitude that we have just got to continue to keep making every military installation in this country totally self-sufficient, whether it be with Burger Kings, or mini-storage warehouses, or credit cards, or whatever, where they never have to get off that post to do business with a merchant, gentlemen, you had better get out there and run for Congress and ask for votes. When you do not pay any taxes, it is difficult for a guy who is sitting out there paying taxes, and complying with all the rules, and regulations, and so forth that the Federal Government puts on him, to compete with you and stay in business at the very best.

Now, you know, I will give you the bottom line that as far as this Member is concerned, it is like I tell my people back home, I am not going to tell them that I am not going to vote for a so-called tax reform package this year. There is a one-tenth of 1-percent chance I might.

So you are going to have to do a whole lot more than you are doing at this point to convince me that this is in the best interest of everybody concerned, including the merchants, that I am going to have to be on the phone saying, well, you know, this is the latest expansion effort of the Exchange Service.

I spent the last 3 weeks with four very good constituents and good friends who had just bid a soft drink contract with the exchange at Fort Hood and won it. They went out and bought about $3 million worth of equipment, put that equipment in, and the guy comes back to deliver in a couple weeks and finds out the competitor they just beat had been allowed to put one in.

You know, all sorts of little things like that. A bowling alley guy called me about 6 months ago and said, hey, you know, anybody can bowl at Fort Hood that walks in and pays the fee. We did not take his word for it. We sent a half a dozen people out there and, sure enough, all you had to do was walk up and pay for it. So I spent 3 weeks putting out the fires with the bowling alley operators.

You know, I say these things, Mr. Chairman, because, let me tell you something, if you keep expanding the scope of post exchange activities in this country, and you think there are not going to be political repercussions, you are wrong. There are going to be political repercussions to it. So I do not think that we can sit here and accept national statistics and figures and drape it in the cloak of the fact that it is going to be good for the service person and ignore everybody else who is going to be concerned with this situation. I just think that that needs to be said, Mr. Chairman, for whatever it is worth.

Mr. DANIEL. Mr. Calhoun, the panel has received a number of letters stating that the exchange system in the United States is substantially subsidized by tax dollars and is in unfair competition with local business. They point out the exchange system pays no local or retail tax, no real estate costs, and no utilities. How do you respond to this? And you respond to Mr. Leath. That just happened to be the next question sitting in front of me. I did not realize it was following what he had just said. But how do you respond to that?

Mr. CALHOUN. Well, I certainly do not take issue nor argue with that. If we can find, of course, additional ways to defer or somehow lessen that required appropriation, we will do so. We do, however, pay the equivalent of local taxes as you are well aware. We do involve ourselves in the payment of exchange dividends to support the operation of our MWR activities. So the question is not, I would suggest, entirely true.

With respect to Mr. Leath's discussion, I certainly understand his points. I do not say that they are misguided or unfounded. I think that we in the military have shown a very positive trend with respect to compensation and other perquisites, and we are in the process of continuing to make up for a lot of unfortunate past

deprivation on the part of our service members. I think, unfortunately for the service members, that we have a way to go as yet.

We have capped COLA's, we have set aside attempts at comparability which has always been a concept that we have pursued with the military vis-a-vis private comparable kinds of jobs. We still have military members in the enlisted ranks who live in what I would call substandard conditions. They have their children in substandard conditions; conditions that you or I would not want our families or our children to live under. Their compensation, I would suggest, has been capped. They have not been able to receive, in my opinion, the compensation that would conform to that notion of comparability. I would suggest we compare their lifestyle to ours insofar as their choices. As for the cost of moving, they certainly take money out of their pockets to move.

In that regard I think that credit cards would help them. It would certainly reduce some of the indebtedness insofar as some of the emergency loans that they would have to seek and acquire.

I think, also, that we have offered our service members a contract that says that they will be able to purchase goods in an exchange service at the rate which would be competitive and sometimes lower than the commercial marketplace. And there is no reason that they should not be able to exercise that contract in an unbridled and uninhibited way.

I am not one to suggest that I am a seer of all that is good with respect to one's financial management, and I would not presume it. And as such I would suggest that a credit card in the pocket of an individual should be able to be used where he or she chooses to use it. I do recognize that there is a sizable group who are not sympathetic to the trends with respect to military compensation or with respect to perhaps the whole defense program. But in order to make the all-volunteer force a success, which it has been, and to keep it a success, I think we are going to have to continue to pursue those policies and those programs that tend to enhance the quality of life of our military members. Once we stop that, once we stop supporting that idea, what is going to happen is that our troops are going to start voting and speaking with their feet. And they are going to find other occupations. They are going to find other ways of life. I am not sure that I want to take that risk. That gets right at the heart of national security.

Mr. NICHOLS. Would the gentleman yield? You are not suggesting that people are going to leave the military because they cannot get credit in the exchange?

Mr. CALHOUN. I am not suggesting that they will leave solely on that one point. But I think that that in combination with other attitudes and other practices with respect to pay raises that we have denied them, if you add that to living in perhaps what I would call in a lot of instances substandard housing, inability to take advantage of a contract we have given in the instance of purchases and the use of exchanges, and lay on top of that the reform that is currently contemplated with retirement, and put on top of that the fact that they get less to move than their civilian counterparts—and you can go on. That list is not exhausted by what I have just suggested. But if you take all of those things together, you or I

might at some point rock back in our rocking chair and say, Is this a good deal or is this not a good deal?

If it is not a good deal, and I am a fairly bright, healthy young man or woman, and I can make as much money if not more in the private sector, the choice will become fairly obvious.

Mr. DANIEL. Admiral Wilson, do you have something you want to add?

Admiral WILSON. Yes, sir; with regard to the statements made in those letters, I think it should be understood by the panel that the Navy exchanges, in fact all of the services' exchanges, do pay for utilities in the continental United States. And as it relates to taxes, I would like to submit that the Navy exchange in a sense does pay taxes. And let me explain that statement.

Of my total earnings last year, better than 64 percent went to the Navy's recreation program. If the profits of the Navy exchange did not fund that recreation program, the handball courts, the tennis courts, the baseball fields, et cetera, then I would believe that the Congress would be appropriating funds to build those structures and to fund the recreation program.

But as long as the exchanges are making a profit and declaring those dividends to the recreation program, the taxpayer does not have to make those payments. So in that sense we do pay taxes.

Mr. DANIEL. Mr. Nichols.

Mr. NICHOLS. Mr. Chairman, would I be premature if I asked Admiral Wilson to sort of tell us how we are planning on doing this? Would I be getting the cart ahead of the horse if I asked that?

Admiral WILSON. Of course not.

Mr. NICHOLS. I would be interested in, I presume, some talk that has taken place among those of you at the table as to how we are going to implement this if the decision of this panel should be in the affirmative. And I have some questions, if it is in order, that I might ask.

Mr. DANIEL. You may proceed.

Mr. NICHOLS. My first concern is, an E–5, we will say, at Maxwell Air Force Base, AL, who has a Visa credit card issued by a Montgomery, AL, bank, and he is stationed out here at Andrews, let us say. How would that work? Would he be allowed, could he utilize that card? Do you envision he could use that card or would he have to get another card?

Admiral WILSON. Yes, sir; the way the Navy envisions, and I think the sister services, we are going to competitively solicit the services of a bank or a credit card processing activity and make our selection of which cards, based on the terms that they give us under competitive solicitation with them. There is no intent on the part of the Navy to at this point limit the cards we will accept. It will be a matter of the cost of those cards in the competitive competition.

Today the most well-known national credit cards are naturally Visa and MasterCard, of which there are 150 million cards out in the marketplace. The cost of those services, as best as we can determine at this time, will be about 2 percent. And anybody will be able to use those cards in a military exchange, regardless of which bank issued the card to the individual.

Mr. NICHOLS. Well, in connection with that 2 percent, this is a sizeable piece of business, and I just hope whoever is vested with the authority to negotiate will trade hard on this thing.

Now, let me ask you if it is envisioned—it so happens, so many times, that the Army wants to do it this way and they will make their trade, and the Air Force will want to do business another way, and the Navy, and the Marine Corps. It would seem to me, Mr. Chairman—I just want some guidance on this—that you might get a better deal if you pooled your efforts and submitted one sort of a proposition.

Admiral WILSON. Sir, as best as we are able to determine from the marketplace, once volume is over $50 million there are no price breaks. That is the cheapest rate that you will find. We are going to compete in six major regions in the United States, one region in Europe, one in Asia, and one in the Hawaiian Islands. We will put out RFP's in those regions, in which anybody can bid by region or collectively for all regions.

Mr. NICHOLS. OK.

Mr. DANIEL. Will the gentleman yield to Mr. Cofer?

Mr. NICHOLS. Surely.

Mr. COFER. Admiral, I think the response might have been a little bit confusing, at least it was to me. I think Mr. Nichols addressed two points, and I would like to see if I can clarify those two points.

His first point was—and I forget the bank in Alabama. The guy has a credit card right now and he is stationed at Andrews Air Force Base. Forget about who is processing your paper. Can he take that credit card that he has already had from Alabama and go into the exchange at Andrews Air Force Base and buy something with it?

Mr. NICHOLS. Or the Navy exchange?

Mr. COFER. Yes; or are you going to issue him new credit cards? Is he going to use that credit card that he already has from the Alabama bank?

Admiral WILSON. The answer is yes.

General LONG. Yes; he will use the credit card he already has from the issuing bank.

Mr. COFER. OK. The second point, I think, was that you were primarily talking about two kinds of things. The exchange does not have the wherewithal, and I believe you have said you do not want to get into processing paper.

Admiral WILSON. That is correct.

Mr. COFER. When you start accepting credit cards and all this paper is generated, what you want to do is to get a company to process that paper, and then send that transaction to the bank and then the bank will pay you, and that is where you are paying some companies 2 percent, which has nothing to do with the credit card at all. All they are doing is processing your receipts. Is that correct?

Admiral WILSON. That is correct.

Mr. COFER. Thank you.

Mr. NICHOLS. One final question to the Admiral, if I might. I was interested in the observations made by my colleague who, for those of you who do not know it, is a hardnosed country banker down in

Texas. If he appears to be a little hard, he has been saying no and shaking his head a lot of times. It is a custom down there.

Admiral, as is so often the case—I know this has happened to every member of this panel here—we get a letter from the Southeastern Furniture Store in such-and-such a town: "Dear Congressman: Sergeant So-and-so went off owing me a debt. Will you help me collect it?"

Is it anticipated that the credit card companies would call on the Department of Defense to help collect delinquent accounts?

Admiral WILSON. No, sir; it is not anticipated that they will. Nor does the Department of Defense have an obligation to act as a collection agent. As a matter of fact, we are restricted from acting as a collection agent. As military personnel, our primary responsibility, as it relates to a member of our staff or military force, would be merely to insure that the individual told the creditor what his intentions are.

Mr. NICHOLS. Finally, Mr. Chairman, I hope none of you get the idea that I am negative in any way about the exchanges, the commissaries. I am on this panel I think at my request, Mr. Daniel. It might have been your request. But we have been supporting exchanges, and commissaries, and bowling alleys, and theaters, and a lot of things for a long time, and I am going to continue to.

It is only in my interest in the exchange system that I ask these questions.

You all are looking to the nucleus of this committee to handle your chestnuts here in the Congress when they come up. And we have in this committee a letter from, a copy of a letter from I guess one of the most outstanding businessmen in the city of Washington to the President saying: "Why do we need exchanges? I have all these stores located here. I sell everything." And these questions come up on the floor and we have to respond to them. So if my questions appear to be negative, I hope you will understand it is in the interest of not killing the goose that laid the golden egg. Exchanges mean too much to the military patron, both active duty and there are promises we have made to retired people, and I intend to see them around a long time. Thank you, Mr. Chairman.

Mr. DANIEL. Mr. Martin.

Mr. MARTIN. No further questions at this time, Mr. Chairman.

Mr. DANIEL. Mr. Leath.

Mr. LEATH. I might just say, in followup to what my colleague said here, I would hope that this panel, particularly those of you formerly in the military, understand that you are not dealing with some liberal here. I am fairly supportive of the military myself. I do not know of anybody any more supportive.

I am just telling you that there is always more than one side to an issue, and you cannot come in here and sit and say, we are going to increase business by 15 percent and it is going to all come out of the air. Gentlemen, that is not true. Some of it is coming out of the pockets of some of our merchants.

Now, if you do not want to admit that, you are just not willing to be honest with yourselves or you do not know very much, one of the two. Now, that is going to happen. A certain percentage of some smaller merchants will go broke once you get this program

fully implemented. And you can sit there, and shake your heads, and say, no, that is not true.

It just so happens that the Fort Hood Area Chamber of Commerce has already determined that 10 percent of the marginal businesses in the area, retail businesses, will go broke when you start using credit cards on a common basis in those exchanges. They have already concluded that it will severely impact to some degree—they do not know yet—30 percent of the businesses there.

So, you know, I think the way you get killed nowadays is when you are, you know, like we used to have an old saying in the stock market, the bulls and the bears make money but the hogs go broke. And the tendency is to be a hog in these things.

We drape this flag of decency and so forth around us and the Congress is going to let us have it. But let me tell you something, there is an antagonism building up in this country today. There is a failure of the administration to be a little bit more coherent about its defense buildup policy, and you are seeing, you are in the process of seeing a whiplash against defense. And when things like this are done, that creates an additional whiplash within merchant communities and things of that nature. So I am just telling you, we need to tread carefully when we start talking about having the exchange services do everything, from polishing your fingernails to whatever else somebody might dream up that they want to do.

We have another group of constituents out there, another group of people, who are just as concerned about these things and even more so than you are because it comes out of their hide and it comes out of their pocket. It is not merely a one-way street. And so I say that merely to point out that if I bristle up a little bit about these things, it is not because I am not supportive of the military. I do not have to defend my credentials there. I am as supportive of the military as anybody in this Congress, as supportive of pay and benefits and all of those things. As the chairman says, you know you are looking at a good percentage of the people sitting right here that have pushed those things down through these last few years.

But, you know, that does not mean that every idea we get is perfect, and it does not mean that everything you come over and say you want to do, we need to let you do. We may save you from yourselves sometimes. We would not have spent $1.8 billion on a tank with a gun sitting on top of it that we are all embarrassed about today, perhaps, if we had saved somebody from that. So, as I say, Mr. Chairman, everything is relative. But I do not want anybody here to say this guy from Texas does not want us to do this, that, and the other. I am as supportive of the military as anybody.

But I am going to catch an unmitigated amount of heartburn out of this proposition when you put it into effect, because I have already had a taste of it, and all I am telling the rest of you is, if you think that you are not going to, you had just better wake up because you are.

General CHAVARRIE. Mr. Chairman, may I answer?

Mr. DANIEL. Yes, General.

General CHAVARRIE. Sir, I think that the Department of Defense certainly understands and appreciates the support of this panel and the feelings of the members on it. There is not any question

about it. We absolutely do. We thank you very much for it. We certainly know that our score card is not 100 percent when we come over and ask, whether it is a tank or whether it is for credit cards. You are quite right, sir, when you say that Fort Hood is particularly affected because I imagine the 45,000 people at Fort Hood constitute probably a larger city than many we have in the United States.

So you are quite right. And if there are abuses and irregularities they should be taken care of within the system.

Just a couple of points. One, we are not asking to sell anything else in the exchanges. We only indicate, concerning credit cards, that there is going to be an impact as a result of increased competition.

One of the things that exchanges are for is to provide some sort of supplemental funding for MWR. That is the function the exchange system has to carry out.

For example, out of the earnings last year—there were about $330 million worth of earnings in the exchange systems—over one-half of that went to MWR, to swimming pools and things that communities outside of the base normally fund with taxpayers' money. Many of these facilities that are provided on the base are built with nontaxpayers' money. They are being built with funds which represent the purchases of the folks that are in the military.

Two, the rest of the funds go for military construction and to build buildings for the exchange system. So it is not to sit here and try to overly excuse us. I am just saying that they perform a function and it is a function that includes nonappropriated funds. We certainly understand that Fort Hood being where it is, and as many people are there are going to be affected more than some other base, and I think in the final analysis, even though it is a gross calculation, and it is an aggregated number, less than 1 percent would be affected. You are quite right, it is going to affect one base more than another. But we certainly appreciate the support of this panel.

Mr. DANIEL. The Chair might add, there is no one in this room or in any other room that is more supportive of the military than the gentleman from Texas.

General CHAVARRIE. Yes, sir. We understand that.

Mr. DANIEL. We appreciate it.

General CHAVARRIE. We appreciate it.

Mr. DANIEL. General Long, as I looked at the figures for the past few years, it seems to me that business in the AAFES is about flat.

General LONG. That is correct.

Mr. DANIEL. Can you give us any reason for that, and is that one of the reasons why we are attempting to generate more business through the credit system?

General LONG. First of all, Mr. Chairman, that is correct. The sales are flat. Providing credit would allow any patron, any customer, to get the full exchange benefit. When that occurs, obviously we would have an increased amount of sales, increased earnings, which would enable us to operate better.

This particular year is a very rough year for us, as it is in the entire retail industry. Sales are flat, earnings are down among all the major retailers. We feel, with the provision of credit, that this

additional 6 percent certainly will go a long way to help us maintain our earnings.

Mr. DANIEL. There is one other area that the Chair would like to get into and that is that there are several chains, national chains that have opened up outlets on the bases and it is my understanding that the Department of Defense in effect has given them a check-off system in order that the patrons who are members of the military can purchase from those outlets.

In addition to that, these outlets have exorbitant prices and high interest rates. That is rumor. Have you all had any experience with that? And if so, would you tell us about it?

General LONG. Yes, sir; that was the survey, on those types of outlets, that I responded to Mr. Martin about: 46 percent higher than you would find in our stores.

The system—although I do not think the Department of Defense provided the system to them—is certainly a unique way of using the system, which would have a soldier or an airman provide an allotment to a bank in the local area. He grants that merchant the authority to take so much money from his account each month. Some people use this same system to pay their utility bills or what have you.

Merchants extending credit under this system, in some cases, charge the maximum interest allowable by law within that jurisdiction plus a reasonably good markup on the merchandise that they are selling. And that would generally account for 46 percent higher prices. But those, Mr. Chairman, are those outlets that you are referring to. That is not every businessman.

Mr. DANIEL. Oh, I understand that. It is a small number out of the total. Well, I have one in my hand; yes; I just happen to have one in my hand.

General LONG. Yes, sir.

Mr. DANIEL. I guess this would affect it.

General LONG. We found a number of those in our exchanges.

Mr. DANIEL. Thank you. Any other questions of the members? Mr. Leath, do you have any more questions?

Mr. MARTIN. I have——

Mr. DANIEL. Mr. Martin.

Mr. MARTIN [continuing]. Just a question on this issue, how we proceed from here, Mr. Chairman.

Mr. DANIEL. Well, the procedure will be simply this. The record will remain open for 5 legislative days, in the event of additional testimony which anyone wishes to present or any other questions or any statement that any member might wish to make. And then at the end of the 5 days the record will be closed and then we will reconvene the meeting and vote on whether or not the panel desires to honor the request of the Department of Defense.

Mr. MARTIN. Thank you, Mr. Chairman.

Mr. DANIEL. Mr. Cofer, do you have any questions?

Mr. COFER. Yes, Mr. Chairman, I just have two or three questions.

This was an exercise I went through as part of the Readiness Subcommittee this year, of trying to find out how much the Army was spending on family programs, and it took me 2 days to just add

these figures up. But when I had them added up, I could not get any meaningful data out of them.

One of the things that I looked through on what the Army was asking for money, puzzled me to some extent. Because it appears that every single command, and if I just take USAREUR, it is their Family Action Plans Programs. Last year we did not have this program and this year we are asking for $5.4 million. And if I go to FORSCOM, I will find another $4 or $5 million, and in all of the commands I will find this money.

But then you ask what is this money going for? And I would just like to skip over the first part of it and get to the bottom. It is to provide setup funds for critically needed health services geared to the soldiers' families. And then it lists a number of things.

No. 4 is financial planning classes, individual budget counseling, and consumer education to reduce family debt, a causative factor in spouse and child abuse as well as substantive abuse.

I was unable to figure out how much taxpayer money was going into this thing. My question really is, How does the Department of Defense on the one hand submit to the taxpayer to pay for courses like this, which indicate there are problems, and on the other hand come before the committee to ask for credit? Is there a reconciliation process where you have gone through to say, well, it is not going to cause family debt, that we will not have to spend millions of dollars next year for family counseling and all of these other kinds of programs?

Mr. CALHOUN. Let me try to answer that.

I am not sure there is the nexus there that you draw. First of all, this has been an initiative of the Department over the last couple of years. The military family, as a unit, I think, has not gotten the kinds of support or attention that it deserved in the past, nor had the service members, for that matter. Just looking at the evidence of the record prior to 1980, when we came in, we did a lot of things for the service member.

The military family—the military family unit—is no different from his or her private counterpart. It is fundamentally the same, and as such it needs and deserves similar kinds of support networks.

What we have done is to suggest that they have problems just like every other family, and those problems are often exacerbated by unusual circumstances into which they are thrust by the condition of their service life. And like any other family they need and deserve counseling because they have those problems like everyone else.

I offer that on one side of the discussion. On the other side of the discussion, with regard to our coming before you with this request, this proposal, we are not asking for, necessarily, a means to provide another means of accruing debt. That is not what we are here for. We do not think that there will necessarily be any more debt. What probably will occur, I would suggest, is that the service member or the individual will exercise the use of that card differently, that he or she will use that card in an exchange to a greater or lesser extent than they would use it in other accepting enterprises.

I think we talked about the spending habits of our military members. They are no worse than anybody else's in the society at large. As a matter of fact, I think our data suggests that our service members do better at managing their finances.

I hope that satisfies your question, sir.

Mr. COFER. The only point that I am trying to make, Mr. Secretary, was that in my other role of supporting the chairman on readiness I tried to find out what these millions of dollars were going for. And I was sort of shocked to see there is $5 million to teach people to fill out their checkbooks or to do these kinds of things. All I was trying to do was reconcile myself here because I ask myself who taught me to fill out a checkbook? I do not think anybody did. I learned the hard way.

General LONG. Well, I think those are smaller problems because as General Chavarrie pointed out, I think the quality of our service member has gotten better and will continue to be better. I think it also relates to some of our scoring, norming problems that we had in the early 1980's, the late 1970's, CAT-4 problems we had with the kinds of descriptors we used with respect to manuals and training aids. All of those kinds of things go together. They are not necessarily of our creation but they are there. They are problems, and unfortunately we have to draw upon resources to correct them.

Mr. COFER. The second area I want to address concerns a letter from the Department of the Navy dated July 23, 1984, to Hon. George Bush, President of the Senate.

It comments on proposed legislation and indicates that there was no current statutory authority for Navy or Marine Corps officers to involuntarily recoup debts owed to nonappropriated fund activities.

I would like to put this into the record to reconcile what the admiral talked about before. This letter says:

> The Navy and the Marine Corps have expressed concern over the increase in dishonored checks being passed at a wide range of our activities. especially at military exchanges, commissaries, and related activities. The total dollar value of bad check losses at the Navy Exchange alone increased 60 percent during fiscal year 1980 over the comparable figure of 1979.

Now, I do not have the latest figure but this letter to the Vice President was dated July 1984, which is a little over a year ago. I would request for the record that we submit the comparable data for all of the exchanges to see what these increases in bad debts are.

Finally, Mr. Chairman, I would like General Long to summarize what we have experienced in our sales growth in the DPP in Europe. I just returned from Europe. Would you characterize that program?

General LONG. Well, I think, Mr. Cofer, when the program first started over there, the mix of the items that were being purchased by our customers were primarily in the electronics area. That mix has dramatically changed. It is now at 55 percent. I think roughly 16 percent is clothing, and 10 percent is furnishings. We are doing very well in that program as far as bad debts. If I could clarify this for the record, I think it is 0.81 percent of bad debts in that program. We are doing very, very well.

[The following information was received for the record:]

MILITARY EXCHANGE COMPARISONS

	1982	1983	1984	1st half of 1985
ARMY AND AIR FORCE				
1. Total number of checks cashed	68,057,106	75,760,051	78,338,491	(1)
2. Number of retired checks	333,740	332,952	389,744	202,879
3. Total value of checks cashed	$3,363,183,000	$3,698,961,000	$3,837,311,000	(1)
4. Value of returned checks	$16,791,000	$17,281,000	$19,932,000	$10,468,000
5. Value of uncollectable checks (writeoffs)	$1,411,000	$1,019,000	$1,265,000	$628,000
6. Percent of writeoffs to total value of checks cashed	0.0420	0.0275	0.0330	(1)
NAVY				
1. Total number of checks cashed	(1)	(1)	16,331,472	(1)
2. Number of retired checks	(1)	(1)	79,400	(1)
3. Total value of checks cashed	(1)	(1)	$1,301,919,588	(1)
4. Value of returned checks	$4,548,300	$4,767,500	$4,298,600	[2] $2,200,000
5. Value of uncollectable checks (writeoffs)	$587,800	$640,500	$687,300	$226,900
6. Percent of writeoffs to total value of checks cashed	(1)	(1)	0.0530	(1)
MARINE CORPS				
1. Total number of checks cashed	4,372,072	4,633,388	4,909,267	(1)
2. Number of retired checks	28,818	33,884	35,821	(1)
3. Total value of checks cashed	$450,531,642	$438,316,978	$508,904,579	(1)
4. Value of returned checks	$1,196,663	$1,449,451	$1,620,191	(1)
5. Value of uncollectable checks (writeoffs)	$101,057	$113,700	$147,470	(1)
6. Percent of writeoffs to total value of checks cashed	0.0224	0.0236	0.0290	(1)

[1] Not available—reported/computed annually.
[2] Estimate.

Mr. COFER. But sales have been going very well in that program?

General LONG. Sales have been going very well as far as the program itself is concerned. Yes. Of course, we have a very competitive market these days in Europe, with the strength of the dollar.

Mr. COFER. That is all I have, Mr. Chairman.

Mr. DANIEL. Mr. Waters.

Mr. WATERS. Thank you, Mr. Chairman. I just want to follow up on a couple of questions. For example, I am not sure you received a correct answer to your question, and we have received a number of letters in this connection. I think I will ask Colonel Irwin this question.

Do exchanges in the continental United States receive support from taxpayer dollars? Are there any taxpayer dollars going into exchange operations?

Colonel IRWIN. Yes; there are. The land that the exchange operates on we are not charged for in any fashion. In the Marine Corps we have 138 active duty Marines that serve with the Exchange Service, which is approximately 2 percent of our work force for the entire exchange system. We do not pay any State or local taxes, nor do we pay any corporate income tax.

Mr. WATERS. Are there any appropriated dollars used in the United States?

Colonel IRWIN. Well, we have the land, but the buildings are built now with nonappropriated funds, the utilities are paid with nonappropriated funds; basically, no. We have an advantage but I do not think it is basically costing the taxpayers.

Mr. WATERS. Would that hold for the other exchange services too?

Colonel IRWIN. That is correct.

Mr. WATERS. Let me follow up another question with you, Colonel Irwin. You have mentioned in the past that the retail and service activities where credit cards can be used should be uniform throughout the services. Is that the way you feel, or are there any areas where you feel credit should not be granted in your service?

Colonel IRWIN. I think, basically, through the Armed Forces Exchange Coordinating Committee the three services—four services; three exchange systems—have basically agreed upon their game plan as to where credit within the exchanges should be authorized.

Basically, here is where we said it should not be authorized. We said it should not be authorized in the barber shop, the laundry-dry cleaning, convenience stores, snack bars, and vending operations. But of course, any of those things would bring our transaction item very low, which increases the cost of the program. Everywhere else, basically we said, yes; we would allow credit card sales.

Mr. WATERS. One final question to clarify Admiral Wilson's reply to a previous question. When Mr. Whitehurst asked you about the surveys, General Long responded that there was a 46-percent savings, and you responded that there was a 24-percent savings. That is a substantial difference. Could you reconcile those two numbers?

Admiral WILSON. I think 46 percent savings——

General LONG. The 46 percent was those specific outlets that the chairman was referring to. I think Admiral Wilson gave his overall savings. AAFES' overall savings would be 20.3.

Mr. WATERS. I wanted to clarify that for the record. Thank you, Admiral; thank you, General.

Mr. DANIEL. Mr. Holton.

Mr. HOLTON. Two quick questions, Mr. Chairman. Earlier Mr. Nichols was trying to get at the number of lower grade enlisted people who might have credit cards. Admiral Wilson, during 1983 the Navy Exchange conducted a survey. Did you have lower grade enlisted personnel in that survey?

Admiral WILSON. Yes, sir; and we found that 38 percent of our E–1 through E–4's had some form of credit card already.

Mr. HOLTON. Thirty-eight percent?

Admiral WILSON. Yes, sir; As a matter of fact, 13 percent of our E–1's had some form of credit card, gas credit card or Sears card or whatever. And 22 percent of our E–1 through E–4's had a Visa or a MasterCard.

Mr. HOLTON. Twenty-two percent?

Admiral WILSON. Yes, sir.

Mr. HOLTON. All right. That gives us some idea, then. The other question is concerning the cost to do credit transactions. Normally it costs 2 to 3 percent more to do a credit transaction than a cash or a check transaction. How are you going to incorporate that cost?

General LONG. We will absorb that cost, as far as AAFES is concerned.

Mr. HOLTON. Rather than raise prices?

General LONG. There will be no increase in prices whatsoever.

Mr. HOLTON. OK. Thank you, Mr. Chairman.

Mr. DANIEL. Any other questions? If not, let the Chair repeat that the record will remain open for 5 legislative days to accept any other testimony which might be submitted. I would also like to express the view that the Chair is disappointed that those who

have written and opposed the acceptance of credit cards are not here in order that they could be heard.

There are several other questions, Mr. Secretary, that we may submit for the record, and if so we would like those answered in that 5-day period.

[The following questions were submitted to the witnesses to be answered for the record:]

Mr. DANIEL. You mention on page one of your statement that credit cards are currently being used to pay for fees and services on many installations such as golf and swimming memberships, child care, and temporary lodging fees.

It is my understanding they are also widely used in military clubs and package stores.

Do you know the amount of sales generated at these activities that are attributed to credit cards?

Are you aware of any individual or operational problems that have surfaced from usage of credit cards at these facilities?

Mr. CALHOUN. Neither this office nor the headquarters of the Military Services require a report which breaks out credit sales and fees from total sales and fees. Acceptance of credit cards in these activities is a local option and is not controlled at Service headquarters level, so these data are not readily available. However, some of the Services review the local credit option authorization on an annual basis. The only problems that have arisen relate to negotiation of the discount fee and other contract terms. My office has not received any indication of problems that have surfaced from use of credit cards in these MWR activities or from acceptance by exchange concessionaires.

Mr. DANIEL. The Department of Defense is requesting permission to accept nationally recognized credit cards in military exchanges. The three exchange systems currently operate an in-house credit program at overseas locations. Commercial studies indicate this type of program is more costly to operate than a bank credit card plan.

Does DoD plan to continue operating its in-house program overseas, or will one system based on national credit cards evolve?

Mr. CALHOUN. We plan to continue the Deferred Payment Plan (DPP) as a service to our people in overseas locations. We currently charge 1 percent per month interest on the unpaid balance, which is somewhat less than most other credit arrangements. For this reason, we believe our patrons will want to continue to use DPP.

Mr. DANIEL. Members of the Panel are aware that exchange profits are used to help support the morale, welfare and recreation activities of our military services. However, many commercial retailers, and even some exchange patrons, are unaware this is done.

Could you explain why this is necessary? Also, could you tell us that the total amount of military exchange sales profits were for last year and how these profits were used?

Mr. CALHOUN. Exchanges do not, of course, generate profits in the sense of a commercial enterprise. They do however have a mission to provide supplemental funding for community, morale, welfare and recreation (MWR) program on military installations. These MWR programs include many of the same kinds of activities found in civilian communities—libraries, parks and playgrounds, gymnasiums, swimming pools, teen centers, and so forth. These programs have never been fully funded by the Congress. Last year, military exchanges earned $333 million, of which $187 million was paid into funds used for these community activities. If these monies had not been available, then the Department and the Military Services would have been faced with some extremely difficult choices. Do we seek increased funding, curtail or discontinue community services, or place a further burden on the military families by increasing fees and charges? The remainder of exchange earnings are used mostly for construction of facilities and purchase of new fixtures and equipment.

Mr. DANIEL. A concern of many people including exchange patrons, is that the complexities of credit card usage will place a considerable burden on the exchange system and could very well increase the cost of doing business.

Do you agree with this assessment and, if not could you explain why?

General CHAVARRIE. I do not agree. All studies I am familiar with, substantiated by the experience of commercial retail firms, demonstrate that the volume of credit business more than covers the costs. There are costs associated with cash transactions, too; and these costs do not differ a great deal from the costs of a credit trans-

action. We expect that forthcoming point of sale electronic fund transfers will cost even less than cash transactions.

Mr. DANIEL. Loan requests from Service members to military relief societies have increased for the last eight years, totaling over $52 million last year. According to the Director of Army Emergency Relief the upward trend will continue with no end in sight.

In your view, would the approval of DoD's request to use credit cards in exchanges contribute to the financial problems being experienced by our military personnel?

General CHAVARRIE. Credit can, of course, become a burden and we are counseling our service personnel and their families on the responsible use of credit. However, our experience has been that the overextension of retail credit has not directly contributed to the increased reliance upon the military relief societies. The greatest single cause of financial need being dealt with by the military relief societies is the cost associated with permanent change of station moves. As a result of these costs, we have encouraged our people to make use of the financial assistance available from the relief societies, and these societies have liberalized their loan and grant policies. This has contributed to the increased case load noted in your question. We do not expect any significant problems if credit cards are accepted in military exchanges.

Mr. DANIEL. Many of those opposed to the credit card proposal feel that our younger Service members who might qualify for a credit card may very well extend themselves beyond their means and become very ineffective because of the constant worry of bill payments.

Is this a valid concern, and, if so, how are the exchange services going to prevent it?

General CHAVARRIE. It is not in the best interests of financial institutions or other credit card issuers to extend credit limits beyond the ability of card holders to pay. So, I am confident that the system has its own built-in safeguards. We have had very few problems to date of the nature addressed in your question. We will, however, continue to emphasize personal fiscal responsibility in formal courses and counseling programs, which are available on most military installations.

The following additional statements were submitted to be inserted in the record:

PREPARED STATEMENT OF A. KOLBET SCHRICHTE, EXECUTIVE VICE PRESIDENT, AMERICAN LOGISTICS ASSOCIATION

My name is Kolbet Schrichte; I serve as the Executive Vice President of the American Logistics Association. On behalf of the Association's Board of Directors and membership, thank you for this opportunity to summarize for you some of the information and insights we have presented for the record. The American Logistics Association is a voluntary trade association which represents manufacturers, distributors and brokers of goods to the military resale and troop subsistence systems, including the military exchange systems. Our membership is as diverse and representative as the items that appear on grocery or retail store shelves. The majority of our corporate members also are major suppliers to civilian food service, grocery and retail outlets.

We hope our understanding of the structure, operations and organization of the private sector can be helpful to the Panel as you analyze the function and effectiveness of the military exchange benefit. We also hope you will call on us in any way in which we can assist the Panel in carrying out its oversight responsibility.

The credit card has become a fact of life in American society. It is as much a part of the retail sector as the

personal check , cash, or in-house credit. The credit card has also become both a means of identification and a device for the management of personal finances by the holder.

The companies represented by the ALA are dedicated to providing the members of the Armed services the best quality products at the lowest prices. At present, when the personal finances of the individual service member require the use of a credit card, it requires that the member make his purchases in facilities where prices are higher than in the exchange. The ability of the service member to use the credit card in the exchange will provide him with the ability to take full advantage of the prices, convenience, and quality assurance that the exchange services provide.

As taxpayers we feel that the very existence of these non-appropriated fund facilities assist in the retention of competent and dedicated all-volunteer service members.

Because the credit card has become so universally accepted in the business community, the denial of its use in exchanges in fact reduces the value of the exchange. It also increases the cost of living to the service member, who is forced to do business in more expensive facilities.

We believe that the authorization of the use of the credit card can greatly enhance the value of the exchange as a facility for the retention of military personnel, at no expense to the taxpayer.

The authorization of the use of credit cards will make more apparent the interest of the Congress in the quality of life of the soldier, by supplying him with the same fiscal tools enjoyed by his civilian counterparts.

The value of the card is best measured by the test of determining how well exchanges are able to fulfill their mission of serving their patrons. The credit card in the exchange can assist the service family if it provides the family with an ability to obtain goods and services of the highest quality at the lowest price. Sales that are lost to the exchange because of the absence of the use of credit are losses to both the Morale, Welfare, and Recreation fund and to the individual service family. The taxpayer also loses if the factor detracts from the value of the exchange as a "retention" device for the all-volunteer service.

The members of the American Logistics Association respectfully urge that the panel authorize the use of Credit Cards in our exchanges.

Thank you very much for this opportunity to testify. Please let us know if we can provide additional information. I would be happy to answer any questions.

I respectfully request that the record on these hearings be held open for ten days in order that the American Logistics Association may clarify any points raised by other witnesses.

PREPARED STATEMENT OF GEORGE R. ROWAN, JR., EXECUTIVE VICE PRESIDENT, ARMED FORCES MARKETING COUNCIL

Mr. Chairman and members of the MWR Panel, my name is George R. Rowan, Jr., Executive Vice President of the Armed Forces Marketing Council (AFMC), a league of business firms representing manufacturers supplying brand name consumer merchandise to Armed Forces personnel and their families through commissaries, exchanges, and clubs at military installations worldwide. The Council's offices are located at 1750 New York Avenue, N.W., Suite 340, Washington, D. C. 20006. A list of firms serving on the Council is enclosed.

The AFMC appreciates the opportunity to appear before you in connection with your consideration of the proposal to allow the use of credit cards in military exchanges. Before presenting our comments in support of this proposal, I would like to briefly outline the purpose and functions of the Council.

The AFMC was incorporated on April 25, 1969, in the District of Columbia, as a non-profit business league under section 501(c)(6) of the Internal Revenue Code. It was organized to:

1. Promote a better understanding and awareness of the services the industry provides to both the Armed Forces and American manufacturers;

2. Provide firms serving on the Council a forum for discussion of industry-wide problems;

3. Provide channels of communication with the Armed Forces resale systems to help them meet their morale and service missions;

4. Assist in the continued improvement of the quality, quantity, and availability of brand name consumer merchandise at

competitive prices for Armed Forces personnel and their families stationed throughout the world;

5. Encourage the maintenance of the finest support services programs as major factors in the morale and service missions of our Armed Forces;

6. Assist the Armed Forces resale systems and American manufacturers in formulating that portion of their operating policies and procedures requiring coordination and mutual cooperation for the benefit of military personnel and their families.

The manufacturer's representative industry, comprised largely of small businesses, started in reponse to the need for specialized sales representation to this unique worldwide market. These firms have developed marketing and merchandising programs specifically tailored to the military resale systems resulting in better services and lower prices to the military consumer. Through the link they form between the resale systems and the manufacturers, they have also helped to assure the continuous worldwide availability of the complete array of consumer products, normally available to the civilian market, at the lowest possible prices.

AFMC member firms, who represent over 300 manufacturers, many of which are small or minority-owned businesses, have made many important contributions to the military resale market. They have also played a leading role in assisting the military resale systems to become part of the fabric of military life. Firms

serving on the AFMC subscribe to a code of professional ethics requiring high standards of honesty and integrity, critical to continued successful service, both to the Armed Forces and to the American manufacturers they represent.

AFMC has in the past appeared before the House Committee on Armed Services -- in 1970 before the Special Subcommittee on Exchanges and Commissaries, in 1972 before the Special Subcommittee on Nonappropriated Funds, and in 1984 before the Subcommittee on Readiness during its review of military commissaries. In 1975 it appeared before the Subcommittee on Defense, House Committee on Appropriations, and on other occasions voluntarily submitted testimony to the Permanent Subcommittee on Investigations, Committee on Government Operations, United States Senate, and to the Joint Economic Committee.

Mr Chairman, the Council is keenly interested in the successful operation of military exchanges, and I hope the comments we offer today will help to bring about your approval of credit card use in those stores.

The use of credit cards in day to day purchasing has become an accepted way of life by the American consumer. We firmly support the notion that men and women in uniform should be able to use credit cards in exchanges just as they do in commercial retail stores.

There are two primary reasons for granting the use of credit cards in exchanges -- first, the potential for enhancing the

quality of life of Armed Forces personnel and their families; and second, the continuing need to improve the economic viability of exchanges. Both will significantly benefit the taxpayer.

The acceptance of credit cards by exchanges would more readily allow military personnel and their families to avail themselves of lower prices in exchanges on highly recognizable brand name products, and thus effectively increase their overall compensation at no cost to the taxpayer. They would enjoy the buying flexibility currently available to them in the private sector. Personal budgets could be accommodated to seasonal and unpredictable buying requirements, such as back to school needs, holiday gift giving, replacement of items, and to take advantage of significant sale events, without needing to dip into savings.

Exchanges, by not being permitted to accept credit cards, cannot be competitive, nor can they offer a common convenience that the service members expect in their stores. Moreover, lack of credit drives the military patron to seek "easy" but high cost credit for higher priced products, that may not be of comparable quality, at nearby commercial establishments.

The use of credit is often preferred to the carrying of cash or the inconvenience of checks. Military patrons consider themselves discriminated against when they are denied the use of credit in their own stores.

Mr Chairman, we ask that you also consider the mission of exchanges. From their inception they have had a dual

responsibility. Exchanges must not only provide goods and services, but they must also generate necessary dividends for support of morale and recreation activities.

For many years commercial retail establishments throughout the world have accepted some form of credit and most accept at least one national bank card. The acceptance of credit cards by retailers increases sales and helps to ensure their competitiveness in the market place. The same benefits would hold true for exchanges.

The acceptance of credit cards by exchanges would also reduce the pay day surge in shopping, and spread consumer buying and traffic more evenly over the entire month. With the reduction of peaks and valleys in shopping, exchanges could realize economies in hiring and scheduling of personnel. Inventory control would be improved to the point that out-of-stock conditions, caused by uneven buying patterns, could be virtually eliminated.

Military exchanges support a relatively small base of customers, which is not likely to increase under peacetime conditions. Improvements in service, convenience, and competitiveness will be vital to retain the loyalty of those customers, a crucial element in the long term economic viability of exchanges, and the generation of greater earnings to meet the ever increasing needs for morale support funds.

Any shortfall in exchange generated morale support funds

would necessitate a corresponding increase in congressional appropriations to fund programs now supported by exchange earnings -- an increase in the taxpayer burden.

Mr. Chairman, you and the entire MWR Panel have regularly supported the military resale systems and their efforts to improve the quality of life of our men and women in uniform. We respectfully ask that you approve the proposal now before the Panel to grant the use of credit cards by military men, women and their families in their exchange stores.

Armed Forces Marketing Council
1750 NEW YORK AVENUE, N.W. * SUITE 340 * WASHINGTON, D.C. 20006
Telephone: 202-783-8228

ASSOCIATES

GEORGE E. ABBOTT & COMPANY, INC.
West Main Street
Chester, Connecticut 06421
Allen Abbott
(203) 526-9531

ASSOCIATED BRANDS INTERNATIONAL, INC.
G.P.O. Box 13442
Causeway Bay, Hong Kong
William P. Hirsch
5-8175-631

CONTINENTAL MILITARY MKTG., INC.
P. O. Box 6046
Federal Way, Washington 98003
Paul J. Kelley
(206) 952-7722

DON-RON COMPANY
P. O. Box 363
Erwin, North Carolina 28339
Donald S. Davis
(919) 897-5542

DUNHAM & SMITH AGENCIES, INC.
39 Lewis Street
Greenwich, Connecticut 06830
Richard A. Rist
(203) 869-7300

EURPAC SERVICE, INC.
P. O. Box 1787
Greenwich, Connecticut 06836-1787
J. Anthony Fulton
(203) 622-8400

C. LLOYD JOHNSON COMPANY, INC.
8031 Hampton Boulevard
Norfolk, Virginia 23505
C. Lloyd Johnson
(804) 423-2832

MOHAWK MARKETING CORPORATION
P. O. Box 62226
Virginia Beach, Virginia 23462
Hal Debban
(804) 499-8901

V. H. MONETTE & COMPANY
Smithfield, Virginia 23430
Alan V. Monette
(804) 357-4141

OVERSEAS SERVICE CORPORATION
2100 Palm Beach Lakes Blvd.
West Palm Beach, Florida 33409
Frank J. Hogan
(305) 683-4090

S & K SALES COMPANY
125 Greenwich Avenue
Greenwich, Connecticut 06830
Richard A. Steinberg
(203) 869-7060

FRANCOIS L. SCHWARZ, INC.
5505 Gray Street
Tampa, Florida 33609
Charles H. Bridges
(813) 879-8013

TRANS-EUROPEAN MARKETING, INC.
P. O. Box 1267
Hampton, New Hampshire 03842
Peter W. Fleming
(603) 926-2362

PREPARED STATEMENT OF THE CONSUMER BANKERS ASSOCIATION

The Consumer Bankers Association appreciates the opportunity to comment on the possible use of credit cards by shoppers in military base exchanges. We strongly support the acceptance of major nationally recognized credit cards in the exchange system.

The Consumer Bankers Association is a nonprofit organization that was organized in 1919 to provide a voice for the retail banking industry. Today, membership in the Association is open to any federally insured depository institution, including commercial banks, thrifts, and credit unions. Associate members include bank card processors and service provider organizations. Combined, the members of the Association now hold over 70% of all consumer credit outstanding held by commercial banks and over 80% of the consumer deposit accounts held by commercial banks.

Because of the association's strong involvement in retail banking products and services, we are particularly interested in the proposal before the Panel today.

We believe that credit card use will be a beneficial change in Department of Defense policy, beneficial for both military personnel and for the exchange systems themselves.

There are over 155 million bank credit cards in use in the U.S. alone today. This does not include "entertainment

cards" which must be paid in full each month and are technically different instruments.

These credit cards provide their holders with an ever-increasing number of conveniences, including restaurant and retail purchases, cash dispensing at automated teller machines, auto rentals, overdraft checking protection, and purchases by telephone.

Since their introduction in 1951, credit cards have become a part of mainstream America's personal finances. Aside from the convenience factor, they provide a measure of safety when travelling, removing the need to carry large amounts of cash. They provide a widely acknowledged form of identification an in an individual's local community or far away from home. In emergencies, they can provide needed cash or credit. And, during a relocation, they can help cushion the expenses associated with starting a new household.

One popular feature of many credit card accounts is that, if paid on time each month, they do not incur interest charges. The CBA estimates that between thirty and fifty percent of our institution's customers with credit cards pay their bill in full each month. The only cost to them is the small annual fee.

These features of convenience, safety and economic advantage probably account for the growth and widespread use of credit cards.

The two principal bank cards, VISA and MasterCard, had 155 million accounts in the U.S. and well over 200 million worldwide in the first quarter of 1985.

Their combined gross dollar volume for 1985 will probably exceed $130 billion. Some estimates of the numbers of transactions per year exceed 1.5 billion.

Americans like and use credit cards.

The Department of Defense, in proposing to begin accepting cards at base exchanges, has recognized one feature of the ongoing revolution in financial services.

Allowing military shoppers to use their cards in exchanges is a needed modernization of policy. Many personnel already have credit cards and will immediately benefit. Others, who meet the usual qualifications of credit-worthiness, would have that option in the near future.

The Consumer Bankers Association supports this proposal with two specific recommendations.

First, at a minimum the two major cards, VISA and MasterCard, should be accepted. As discussed earlier, these account for the overwhelming majority of bank cards.

Second, a credit card should be accepted, regardless of what bank issued it to the cardholder. There has been discussion of a central credit card, in conjunction with a central military bank, which would be the exclusive card for use in an exchange. We would oppose this because it detracts from the military person's options to continue a comprehensive banking relationship with a local bank, his hometown bank, or another bank of his choice. If that bank issues a card but the card is not accepted at the exchange, it detracts from the bank-customer relationship.

Finally, with regard to concerns that credit cards will not be handled responsibly by younger personnel and that they will find themselves over their head in debt, CBA believes these concerns are unjustified.

Young people in many walks of life are successfully managing their own financial affairs. If anything, credit cards make many aspects of finances easier.

In addition, most if not all banks set predetermined credit limits on their card accounts which are adjusted to the cardholder's ability to repay. The limit can be raised as time passes and a sound credit record is established.

In conclusion, we ask that this Panel give serious consideration to this proposal. Attached for the record are several letters of endorsement from banks who are members of CBA. The Chairman may have received others.

This is a needed modernization in keeping with the changing financial marketplace, which will directly benefit our military personnel.

[illegible]
P.O. Box [illegible]
Roanoke, Virginia 24040
Telephone 703/563-6600

Warner N. Dalhouse
President and
Chief Executive Officer

September 13, 1985

DOMINION BANKSHARES

The Honorable Dan Daniel, Chairman
PANEL ON MORALE, WELFARE & RECREATION
2120 Rayburn House Office Building
Washington, DC 20515

Dear Dan:

I would like to encourage you to allow acceptance of Bank Credit Cards at military exchanges. Both the military personnel who have qualified for a bank's credit card and the exchanges in which they shop will realize benefits. Specifically:

* Bank Card acceptance provides a consistent and uniform international credit payment plan including authorization and settlement. Operations are uniform worldwide; consequently, the procedures used at a German location would be the same as those used in a facility in Mississippi.

* Bank Cards represent a secure payment system because imprinted sales forms are paid only to their depositors.

* Bank Card acceptance reduces the criminal risks of handling only cash sales.

* Credit terms can be utilized by qualified military personnel without the exchanges having to deal with new administrative and collection responsibilities.

We strongly urge you to consider the many benefits to both the exchanges and their customers, and to support the proposal by the Pentagon which will allow Bank Card acceptance at military base exchanges.

Sincerely,

WND:rlw

cc: Mary M. Place
Joe Belew, Consumer Bankers Assoc.

UNITED VIRGINIA BANK BOX 26665 RICHMOND VIRGINIA 23261 USA TEL (804) 782 5000 CABLE ADDRESS STATBANK

United Virginia Bank

September 11, 1985

Mr. Joe Belew
Director of Government Relations
The Consumer Bankers Association
1300 North 17th Street
Arlington, VA 22209

Dear Joe:

Thanks very much for your August 31 letter concerning "big brother bank" and related issues. You are obviously on top of the situation and we are most appreciative.

We will be glad to write in support of accepting major credit cards on base. I have asked Al Robinson, who is a senior vice president and in charge of our bank card activity, to write you directly on the matter and you should be hearing from Al in very short order.

Again, thanks for your prompt response. Let us know when we can be of service.

With best wishes,

Very truly yours,

B. B. Taylor, Jr.
Senior Vice President

/jfas

cc: A. D. Robinson
Senior Vice President

Central Bank
of Colorado Springs

September 11, 1985

Joe Belew
The Consumer Bankers Association
1300 N. 17th Street, Suite 1200
Arlington, Virginia 22209

Dear Mr. Belew:

Thank you for your letter regarding credit cards in base exchanges.

We have recently applied to the State of Colorado for an ATM machine to be located at the base exchange at Peterson Field. I would say Central Bank is very much interested use of credit cards at base exchanges.

Sincerely,

William L. Perry
President and Chairman of theBoard

WLP/th

2308 E. Pikes Peak Ave., P. O. Box 15008, Colorado Springs, Colorado 80935 / (303) 475-9800

CENTRAL BANCORPORATION INC.

First City National Bank of San Angelo
124 West Beauregard P O Box 0041
San Angelo Texas 76902
(915) 655 6901

Richard L Hale Senior Vice President and Cashier

September 5, 1985

The Honorable Dan Daniel, Chairman
Panel on Morale, Welfare & Recreation
2120 Rayburn House Office Bldg.
Washington, D. C. 20515

Dear Mr. Chairman:

This letter is in support of the letter you received from Joe Belew, Director of Government Relations for the Consumer Bankers Association, dated July 30, 1985. That letter and this one strongly supports the proposal that military base exchanges be permitted to accept credit cards as an additional method of payment.

The Goodfellow Technical Training Center is located here in San Angelo. Like most communities, we have a very close relationship with the military personnel stationed there. It was very much a surprise for me to learn that credit cards are not accepted as a medium of payment by the local base exchange. A convenience that is readily available in the general consumer market place has not been made available to military personnel within their own environment.

As a MasterCard and VISA processing service provider, I am quite aware of the convenience credit cards provide. I am also familiar with the different methods of providing settlement for the credit cards sales slip. These methods being the conventional manual processing of sales slips to the automated process called Point of Sale (POS). The general financial market place is accustomed to handling such transactions so it would be a relative routine accomplishment to install the credit card payment mechanism within the exchange system.

As a local banker, we welcome the opportunity to provide another tool for our military friends to manage their personal finances and look forward to a continued friendly and mutually beneficial relationship.

I request that you give this matter your most favorable consideration, and if I can be of any assistance in your decision that you will permit me to do so. Any inquiry or question will be responded to immediately.

Sincerely,

Richard L. Hale
Senior Vice President
& Cashier

RLH:np

cc: Mr. Joe Belew

CITIZENS BANK
P.O. Box C • 425 W. Dixie Ave. • Elizabethtown, Kentucky 42701 (502) 769-2301

April 23, 1985

Mr. Carl Modecki, President
Consumer Bankers Association
1300 North 17th Street
Arlington, Virginia 22209

Dear Carl:

I understand that Congress is considering the issue of allowing bank credit cards to be used at PX's and other on-post facilities. Our bank is located in a market dominated by the Fort Knox installation. We've been familiar with the credit environment and local merchant issues surrounding the use of credit cards for a number of years. We wholeheartedly support the use of credit cards on base.

Any time credit is made available, it helps all segments of the merchant environment. The use of credit cards on post will bring a significant stimulus to the issuance of credit cards to military personnel and those credit cards will also be used by small merchants who reside outside post gates.

If there is any way we can assist in explaining our view of this matter, please don't hesitate to contact us.

Sincerely yours,

JAMES R. FUGITTE
President

JRF:mls

APR 10 1985

EAB | European American Bank

April 1, 1985

Joe Belew
Director of Government Relations
c/o CBA Reports
1300 North 17th Street
Arlington, Virginia 22209

Dear Mr. Belew:

The "Credit Card Use at Military Exchanges" article in the CBA Reports issue of March 15th, 1985 was well received by European American Bank.

European American Bank, in conjunction with an organization known as Military Purchase Systems, issues MasterCard cards to over 24,000 U.S. military personnel around the world. The overwhelming response we receive from the military through applications and solicitations makes it clear that Armed Force personnel have accepted credit cards to use as a major portion of their purchasing power.

European American Bank strongly supports the acceptance of credit cards at U.S. Military Base Exchanges and Consumer Bankers Association efforts to make it a reality.

Sincerely,

William Garner
Vice President

/jc
cc: Vincent DeSousa
Military Purchase Systems

European American Bank & Trust Company, EAB Plaza, New York 11555 (516) 296-5000
International Telex ITT 420771 • RCA 232224 • WUI62735 • FTCC 62725 • Domestic Telex WU { 12-7899 / 12-6342 • Cable Address Euramtrust

Mr. DANIEL. I wish to thank all of you tor your appearance here today. I think it has been a constructive meeting and we appreciate the attendance of the visitors. The hearing stands adjourned.

[Whereupon, at 3:50 p.m., the panel adjourned, subject to the call of the Chair.]

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